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FREDERIC F. CLAIRMONT

The Rise and Fall of Economic Liberalism

The Making of the Economic Gulag

THE OTHER INDIA PRESS
THIRD WORLD NETWORK

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By Frederic F. Clairmont

Published by:

The Other India Press
Above Mapusa Clinic
Mapusa 403 507 Goa, India.

Publication history:

First published in 1995 by Southbound Sdn. Bhd., Penang, Malaysia
and Third World Network, Penang, Malaysia.
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Indian edition (1996) by The Other India Press
in association with the Third World Network.

Distributed in India by:

The Other India Bookstore
Above Mapusa Clinic
Mapusa 403 507 Goa, India.
Fax: 91-832-263305

ISBN No.: 81-85569-29-0

Printed by:

S.J. Patwardhan at MUDRA, 383 Narayan Peth, Pune 411 030, India.

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"Capital is dead labour which, vampire-like, lives only by sucking living labour, and lives the more, the more labour it sucks."

Karl Marx

Capital: A Critique of Political Economy. Vol. 1. The Working Day. 1867.

"The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have little".

Franklin D. Roosevelt

Second Inaugural Address, 1937

To G.C.

Without whose rigour, inspiration and sustained drive this work,
as others, would never have come to pass.

1

INTRODUCTION

"No one who has lived through this extraordinary century is likely to abstain from judgement. It is understanding that comes hard."[1]

As we approach the end of the millennium, republication of *The Rise and Fall of Economic Liberalism* comes at an opportune moment. Unrelenting epileptic convulsions of global capital, so redolent of the Great Depression of the thirties, raises life and death questions as to its systemic viability and survivability in the third millennium. Daily, the fissures are becoming more menacingly palpable; the market mythologies and ritualistic incantations to the glories of laisser fairyland have lost their powers to mystify and bamboozle; already the corruption and rot spawned by capitalism permeates every orifice of social, political, and cultural life.

Like all authors and teachers, I was immensely gratified by the fulsome response of a multitude of readers and critics over the years. These included an aroused English colonial administrator in Hong Kong who instructed me that my perception of British colonial history was 'a loathsome distortion'; one that sedulously obscured the great humanity conferred by British colonial rule on its subjects, spanning over three hundred years. No doubt a well intentioned morsel of pedagogy to which I was not entirely insensitive.

In a similar vein, New Delhi had proscribed the book, until it was pressed to relent, on the grounds that it was seditious, that the author had maligned the Congress Party as being irrevocably iniquitous. An indictment to which I have always pleaded guilty. Emanating from such an open sewer that is the Congress party, it was unquestionably the most lyrical of homages to *Economic Liberalism*, and one to which I will always remain profoundly grateful.

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1. Eric Hobsbawm, *Age of Extremes: The Short Twentieth Century*, 1914-1991. London, 1994

Innumerable friends and researchers enquired if I intended to rework *Economic Liberalism* so that it could serve as a beacon not only to the past but to the future. My retort, or perhaps my refurbished rationalization, was that as an academic and a Senior Economics Affairs Officer in the United Nations I did not have the time, or better still the yearning to modify its format.

It still remains, in my prism, a work of relevance to comprehend the agonizing twists and turns of the seminal political and economic debates of our times, particularly at this juncture when the nostrum of "free trade" is being bandied about so indiscriminately; not least by the triumphal reborn again free trade fundamentalists in the World Trade Organization and the transnational corporations. It has been appropriated as their ideological battering ram. For these corporate theologians, and their political ventriloquist dummies, it behooves us to remind them that the engulfing tide of internationalization and transnationalization of capital[2] exhibited in the TNC remains anathema to the functioning of competitive market forces and economic liberalism.

The conceptual apparatus, epitomized in bourgeois mainstream economics, is for the most part an incoherently fatuous and moribund intellectual exercise, when uprooted from the historical soil that germinated the basic class concepts of classical political economy. The concept of free trade arose at a specific nodal point in the gestational phase of capitalism's transition. It owed nothing to chance. It was a doctrine of one social

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2. We have avoided the journalistic use of the nostrum 'globalization' because of its ambiguity. Rather we have introduced the more accurate and measurable concepts of transnationalization and internationalization. Transnationalization refers to the degree to which output and marketing of a given sector are controlled by TNCs. Internationalization refers to the extent to which output of a given sector is exported. The internationalization of the output of goods and services has its origin in the efflorescence of the world market since the Rennaissance. The transition from internationalization to transnationalization occurred only at the turn of the 20th century, when TNCs began exporting capital, goods and services in large volume. Transnationalization marks therefore a higher maturational stage of capitalism. By the 1960s, with the ascendancy of conglomeration [conglomerate mergers are those betwen firms which are neither direct competitors nor in a buyer-seller relationship with one another] on a massive scale, TNCs became the major vehicles of internationalization and the propagation of the Gulag. For an elaboration of these point, see Frederic F.Clairmont and John Cavanagh, *The Unctad Review*, "Transnational Corporations and Services: The Final Frontier." No.3, 1984.

class, fully conscious of its omniscience and omnipotence, that would be deployed ruthlessly to cut down another social class whose historic time had run its course.

The England of the triangular trade, the conquest of Bengal, the Hanoverian enclosure movements and child labour are some of the historical parameters in which economic liberalism took shape. Already one perceives here, in embryo, the makings of the corporate Economic Gulag of our times. Economic liberalism was thus the belligerent doctrinal expression of the class struggle; the ideological armour of a burgeoning British industrial bourgeoisie in the 18th century that flung its forces with such violence against Mercantilism, whose paramountcy was unchallenged since the 16th century.

"Free trade", propounded with such biblical zealotry by Adam Smith, its doctrinal designer and founder of political economy, in his incomparable *Wealth of Nations* (1776) must be evaluated as revolutionary theory wedded to a revolutionary practice. Free trade, *laisser faire* or economic liberalism did not die a spontaneous death at the hands of conspirators, but peeled and withered away by the qualitative mutations of global accumulation, and its corollary: those convulsive economic fluctuations whose ferocity stands undiminished.

Competitive small scale capitalist production engenders capital accumulation continuously and spontaneously on a mass scale. It is a continuous function but alters its character at certain points of inflection. Powered by profit, accumulation and technology, the nature of the market and competition as its central organizing principle, capitalism changes its form and substance. Just as one capitalist kills another, so does competition change from a constructive into a destructive force so blatantly manifest in our time.

Economic liberalism, in theory, was predicated on the uninhibited workings of competitive markets among atomistic entrepreneurs operating in undifferentiated markets, endowed with identical marketing savvy and technology, and the absence of economies of scale. Thus no individual capitalist, in theory, was positioned to influence "the invisible hand" to the detriment of his competitors. Economic liberalism was thus conceptualized as a utopian self correcting universe, in which the brute realities of capitalism, unemployment and exploitation were alien. This was so inasmuch as exchange relations between buyers and sellers,

borrowers and creditors, workers and capitalists, were premised on economic harmonies and articulated with such spurious clarity in Jean Baptiste Say's law of markets. This egalitarian epitome was the best of all worlds, served by the best of all mechanisms — one that ensured unfettered entry into all competitive markets, the benign and impartial dispenser of economic and social justice. Free trade between nations would thus ensure the frictionless unfolding of this untarnished Liberal International Economic Order whose wondrous workings would create "cornucopia unbounded", as Samuel Taylor Coleridge (1772-1832) exulted. Myths and reality are always, however, uneasy companions.

Most books are organic creations in that they mirror an author's subjective and objective reservoir of experiences. Indubitably, the most formative influence that went into the crucible of *Economic Liberalism* was my sojourn in Indochina, as a civilian officer of the International Commission for Supervision and Control, in the immediate aftermath of Dienbienphu. It was in that lacerated country, that I came to grips with the blood price exacted for freedom. It was there, and specifically in Vietnam, that I was struck by the magnitude of the holocaust perpetrated by the French expeditionary forces in the name of an official France still licking its wounds from the Nazi occupation.

Oradour sur Glane is the name of a small French village that the Nazis had obliterated as reprisals against the French resistance. It still resonates a vibrant chord in the national consciousness. Hardly had one year passed since its liberation from the Nazi yoke than a colonial hungry France bombarded the port of Haiphong, butchering more than 20,000 Vietnamese, thereby triggering an unwinnable war. "Not merely have you committed the most serious of crimes, but also the most serious of errors", intoned Ho Chi Minh (1890-1969). Between the shelling of Haiphong and the end of the battle of Dienbienphu more than a million Indochinese had been liquidated by French colonialism with weapons supplied by the United States caste oligarchy, hell-bent on imperial expansion at all costs.

It was in Indochina, too, that I witnessed the multiplicity of Oradours of French imperialism in its greed to reconquer a peoples that had battled Japanese colonialism tenaciously and victoriously. In Vietnam, there was no room for the Pétainists and Vichyite scum-collaborators as in France. It was in Indochina that I saw at first hand how France, as the power incarnate of mass genocide, had recruited and bestowed its citizenship

upon tens of thousands of Foreign Legion Nazi SS and Ukrainian fascists in recompense for their bloody pursuits. Georges Bidault, a war criminal responsible in part for the management of the Indochinese genocide, spelled out the alibi of mass murder to his patron and benefactor, John Foster Dulles: "In Indochina, we are fighting for the preservation of the free world and democracy." That from a verminous closet Nazi collaborator that actively sought the dropping of the US atom bomb on Indochina.

The hypocrisy and mendacity we may ignore. But what the historical record does not permit us to bypass was that this first mass postwar racialist genocide of an innocent Asian people, whose only crime was their unbendable quest for freedom, was bankrolled to the tune of 60% by US financial credits since 1947. The last word, however, belongs to Ho Chi Minh: "We have long understood that words have different meanings for the oppressors and the oppressed. Freedom is one such word. It has always been so. It is a law of life. When you spit in the face of the colonialists they will always call it rain." In November 1949, Chairman Mao proclaimed in an eloquent eight-word sentence the mood of freedom that reverberated throughout the colonial slave empires.: "We the peoples of China have stood up." To which Dean Acheson abjectly retorted: "We did everything that could be done to halt the march of revolutionary events in China, but it was of no avail." The white man's world in Asia was crumbling.[3] Dienbienphu signalled the *coup de grâce*.

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3. The colonial onslaught against the independence liberation movement in Indonesia that flared up in 1945 led to the butchery of over 150,000 Indonesians. Spurred by a genocidal campaign of reconquest, the Dutch could never have triggered the operation without the active support of the UK and the USA. The first provided it with vast quantities of equipment and transport troopships, as well as Gurkhas; the second indispensable financial credits, topped by Marshall Plan money. Despite this big money manna, and the widespread punitive deployment of Dutch SS battalions that had fought in the Soviet Union, they were defeated. In 1949, almost 350 years of ignominious colonial rule came to an end. The Dutch colonial rape was one of the biggest and most lucrative real estate grabs in the annals of colonial history. In the inter-war years, 10-15% of Dutch GDP emanated from the Dutch Indies. Before 1914, this figure was around 20%. Tragically, unlike Indonesia and Indochina, the national liberation movement in Madagascar was drowned in some of the bloodiest massacres in colonial history. More than 90,000 Malgaches were wiped out. 'Pacification', a word that was to acquire such sinister connotations in Indochina, had triumphed by 1950.

Dienbienphu, May 1954, one of the most decisively shattering events of the twentieth century and of all times, was not only a victory of one of the most legendary Third World military strategists Vo Nguyen Giap, and Ho Chi Minh, but of all humanity. The white man in his pursuit of empire, notwithstanding his unlimited financial resources and overwhelming technology, was hammered to a frazzle by oppressed peoples of colour. For the US oligarchy, it was a moment of wrenching tragedy and humiliation, the prelude to genocide unlimited. Like millions, little did I ever imagine that this new Imperial Frankenstein, whose hands and carcass was lavishly drenched in Indochinese blood by its complicity with a criminal France, would once again unsheathe its sword to decimate Vietnam, and all of Indochina. It was to be performed on a scale so awesome in magnitude, that it would have made the French SS wince, and look as fragile as a quivering autumnal leaf.

It was crime without punishment. Genocide without a sense of shame and an atom of remorse. Not a black penny of reparations. In Washington D.C., there stands a monument of infamy that celebrates this mass murder of the Indochinese peoples. Erected in honour of the killers executed by the bullets of the Vietnamese freedom fighters. In all ways, it bears similarity to the Nazi killers, who, in the event of their victory and in their lust to perpetuate the glory of their bestiality, would no doubt have celebrated their holocausts by comparable Washington style monuments in Berlin extolling the heroics of the executioners of the Final Solution. With a touch of irony it no doubt would have been sculptured by one of the surviving inmates of the Nazi crematoria. In much the same manner as the Washington encomium to mass genocide was done by a Vietnamese emigré.

Not merely would the colonial victims not receive a single penny in reparations, but to compound their agony a savage US two decade long embargo would be hammered into the body of that martyred nation, supplemented by every conceivable act of political victimization. The human costs in deaths alone from the American occupation after 1955 was 4.35 million; to this must be added the 900,000 slaughtered by the French occupant, or a grand total of 5.2 million. Nor should it be forgotten, as General Giap has reminded us, that the anti-Japanese resistance that began in 1941 led to the extermination of about a million Indochinese by war and deliberate recourse to induced-famine. A number that tops 6 million dead, and more millions maimed.

This indubitably will remain one of the greatest acts of State terrorism, genocide and war crimes in recorded history. No peoples in the history of the twentieth century have ever paid such a price for freedom — one proportionately greater than that exacted by the Nazis on the peoples of the Soviet Union and Yugoslavia. It was to be the greatest epic victories against the successive onslaughts of Japanese, French and US imperialism, spanning almost a third of a century.

My Indochinese encounter was but one facet of my existence that moulded *Economic Liberalism*. The hour of reckoning had struck with a vengeance. In November 1954, the Algerian revolution exploded, sequelled by the massacre of over a million dead. In that fateful year, a constitutionally elected government in Guatemala distributing unused land to the Indians, owned by the United Fruit Company, was axed. The symbiosis between US State terrorism, in the service of corporate capital, is admirably elucidated by Gerald Colby Zilg in his biography of the Du Pont de Nemours chemical dynasty:

> "Eisenhower's administration had already protected many companies in which the Du Ponts had interests. In 1954, for example, United Fruit Company was spared the indignity of having to surrender 400,000 acres of unused land to the Guatemalan government for redistribution to Indian peasants. The Guatemala Arbenz government was willing to provide compensation and 3 per cent interest. A US arms embargo followed, backed finally by an open invasion from Honduras, given air cover by F-47 bombers flown by the CIA. The United Nations protested and the Security Council authorized the sending of an emergency peace-keeping force to guarantee Guatemala's borders, but the temporary president of the Security Council, who happened to be the US ambassador, failed to give the Secretary-General the needed order. The Guatemala government was overthrown. The head of the CIA, General Walter Bedell Smith, then joined the board of the United Fruit Company, while United Fruit's president, Allen Dulles, became CIA director."[4]

It was the triumph of a permanent counter revolution that would lead over the next three decades to the extermination of over 450,000 people in

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4. *Du Pont de Nemours: Behind the Nylon Curtain*, New York 1968.

Central America. Colonial and quasi-colonial peoples once again fell victim to US organized State terrorism, as usual galvanized under the trademark of "democracy and human rights" — as in Indochina, the Philippines, Korea, China, Iraq, Panama, Cuba, Chile, Santo Domingo, Grenada, Nicaragua, etc. In his absurd rebuttal to Dr Salvador Allende's speech before the General Assembly, George Bush, then US ambassador to the United Nations, ignorantly exploded: "There is nothing in our system designed to exploit anyone."[5] At that very moment Dr Allende and his associates were condemned to death by orders of the White House; the foundation stones were laid for the blistering decade long repression that followed. This comprised the 130,000 Chilean workers, peasants and intellectuals that were slaughtered, tortured, "disappeared" and wounded. A job exquisitely executed, as Nixon and his Pentagon fulsomely celebrated, by the US anointed, trained, and bankrolled gauleiter: General Augusto Pinochet.

The overall *diktat* of exterminism was unabashedly rammed down the gullets of the naive and the political innocents by Henry Kissinger, one of the grand inquisitors of the Chilean Gulag: "I don't see why we need to stand by and watch a country go communist because of the *irresponsibility* of its own people." That is of its democratically elected representatives. In Chile's case, as in Guatemala and Indochina, exterminism becomes the unique response to the imperatives of democratic change.

It pinpoints the contemporary relevance of Marx when he castigated the Versailles Pinochets at the time of the Paris Commune in 1871:

> "The civilization and justice of the bourgeois order comes out in its lurid light whenever the slaves and drudges of that order rise against their masters. At that moment this civilization and justice stand forth as undisguised savagery and lawless revenge . . . the infernal deeds of the solidery reflect the innate spirit of that civilization of which they are the mercenary vindicators."

There has not been a solitary US president, since World War II, that is not indictable on war crimes charges and the grossest violation of human

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5. *Time*, 18 December 1972.

rights. Panamanian and other Third World nationalists have invariably branded Bush a mass Third World killer. The comparison is well taken but merits amplification. Bush's ruling class and east coast patrician background is unadulterated. He remains the high-profile progeny of one of the paramount US petroleum dynasties; a big-time petroleum capitalist in his own right, with a net worth topping US$210 million. In addition, inside and outside Capitol Hill, he embodies one of the most vociferous and uncompromising galvanizers of the 20th century oil industry, as his Congressional father before him had done. As CIA boss, and later president, he would use his powers extensively to promote globally the US petroleum industry. His interests and their interests were inextricably imbricated. By the laws of American politics he and his political cronies were sumptuously rewarded by the prime movers of corporate capital. In the anatomy of Bush, we glimpse the interlacing of big politics and finance capital in their most glittering consummation. Far more than any US postwar president, Bush epitomizes the thrust of the politics and economics of US capitalism. He was always an insider in the workings and manipulations of finance capital. Bush's Gulf war was confirmatory of the extent to which his oil dealings would propel him in the service of Big Oil in particular, and of finance capital in general.

There are certain concordances between Bush and Al Capone (1899-1947), a blunt, acknowledged big-time killer, and corporate money-man *par excellence*. At least to his honour, Al Capone had no need for rhetorical baloney so conspicuously a trait of the inmates of 1600 Pennsylvania Avenue: "I use very big-money. I use guns too. The bums who insists on double-crossing me know what they are up against. I don't need a church. I don't need priests. As an honest businessman I don't need religion to justify my deals and the highly ethical code I live by. When I need the church and the priests and religion I'll buy them as an honest man. I know what my business is. City Hall understands what I'm saying. At least I hope they do."

Every killer-action and verbal gimmickry of all US presidents, and this applies equally to their French, British, Dutch, Belgian and German counterparts, have always been washed and scrubbed in the most exalted of benevolence and geo-political claptrap. US presidential war crimes and their racket-infested administrations were always sanctified in the lingo

of "freedom and democracy" and that phoniest of platitudes: "the international community", palpably so with the hit-grab takeover of the United Nations. Invariably US presidents have sedulously sought, and for the most part meticulously succeeded, in covering up their tracks. US war crimes against humanity were merchandised as the confrontation of irreconcilable absolutes: absolute good and absolute evil. The devil's pinnacle being the Evil Empire.

Has the world forgotten that criminal moment when the Reagan junta unflinchingly knifed the Hague ruling that condemned the US/Contra annihilation of a Nicaraguan pacific port, with the retort that the court's judgement was irrelevant and non-binding on the US government? And that in a country swarming with a multi-billion dollar law industry, garrisoned by 802,000 lawyers that continuously tout its mantras on "due process" and "judicial procedures". In more prosaic terms, despite its appearances the entire US legal apparatus is a totalitarian cosmetic dung heap in the service of the ruling class that provides a gigantic alibi (the Noriega legal farce is but one more) that dissembles the bludgeon and the workings of State terrorism. The threats and levels of vulgarity scaled by its practitioners is seen in the unabashed crowing of one of Reagan's handlers. Referring to Cuba in a meeting of the National Security Council General Alexander Haig turned to Reagan and said: "You just give me the word and I'll turn that fucking little island into a parking lot."[6] There was no need to designate State terrorism by such resounding labels as the Truman Doctrine or the Bush Doctrine. Variations no doubt there were in personal marketing styles and modes of pillaging. More important were their equivalencies. The New International Order, coined by Bush's political hustler and secretary of defence Richard Cheney, was an attractively packaged ragbag of state terrorist modes of conduct in which all measures and policies could be shoved with the blessing of a captive United Nations. No doubt this is what Reagan meant by his bovine platitude when he exclaimed: "America is standing tall."

The politics of exterminism of coloured peoples in their quest for national dignity was only one facet of the most unscrupulous verbal hoaxes of the twentieth century, turned into a timeless piety: "the free world". Coupled inextricably with it went the shaping of international

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6. Quoted in Nancy Reagan, *My Turn: The Memoirs of Nancy Reagan*, New York, 1989.

economic relations designed at Bretton Woods in July 1944. From this conclave, convened in a small New Hampshire village, a new imperial power vulturously staked its claim to world supremacy, although it had long been the world's leading industrial power since the century's turn.

TABLE 1: *Growth of Industrial Output*
(in per cent)

PERIOD	JAPAN	GERMANY a/	USA	UK
1840-1870	—	4.5	5.4	4.6
1870-1890	5.5	2.5	4.9	1.2
1890-1913	8.6	4.2	5.9	2.2
1913-1938	9.5	2.2	2.0	2.0
1938-1948	-5.4	-5.8	7.4	2.2
1948-1971	16.7	8.4	4.0	3.1
1971-1980	4.8	2.0	3.0	1.0

a/ Data for Germany since 1948 refer to the Federal Republic of Germany only.
Source: UNCTAD secretariat calculations based on various sources.

With the crushing of Nazi Germany and Imperial Japan, the devastation of European industry and the loss of more than 20 million Soviet lives, one quarter of its industrial assets and most of its farm and transport infrastructure, the US now corralled about one half of the world's wealth. Never had a single empire, not even Rome at the acme of its imperial stretch, engulfed such overwhelming power and control over the planet's destiny. The following table depicts strikingly the gains and losses of the victors and the vanquished, notably in the years 1938-1945.

The Bretton Woods negotiations are a landmark starting point in the history of postwar international economic relations. They strove to define the contours of the postwar imperialist world, and in so doing unmasked once again the hollowness of the canonical pontifications of a resuscitated economic liberalism. This had already been accomplished by the imperialist war of 1914-1918, and its economic sequel from Versailles (1919) to Munich (1938). In reality, the substance and shadows of these "negotiations" — that designation is highly misleading — was not a paragon of democratic multilateralism, but rather its antithesis.

From alpha to omega, the negotiations were hegemonized by two antagonistic imperialist powers: the USA and the UK, and their two principal spokesmen. The first, a swiftly soaring imperial superpower whose hypertrophied economic muscle had abundantly swelled between 1941 and 1944; the other, a shredded and debilitated racist-ridden empire thrashing in the throes of disintegration; yet both scrambling fiercely to retain and expand their conquest of international markets, and perpetuate the exploitation of their colonial peoples. Specifically, in the United States, the peoples of Central and South America. For these imperial supremacists, World War II was not an anti-fascist peoples war that it was glamorized to be, as distinct from the formal rhetorical claims, but, as with the first Great War, a slaughter for the redivision of world markets.

Bretton Woods signalized a novel geo-political and economic power configuration. For a credulous côterie, it was celebrated as the culmination of wartime collaboration. Cooperation, however, under imperialism is a convoluted continuum of shifting and opportunistic acts. What the imperial US master demanded, and still does, was not allies but unctuous client states. In Bretton Woods, the US finance and industrial caste got what it sought — and much more. It was not the agents of finance capital acting on their own, and even with the indispensable concurrence of State power, that achieved its objectives. Success required roping in such impeccably loyal quislings of capital as the American Federation of Labour, and a wide swathe of similar institutions in other lands. What its protagonists, however, could not envisage would be the calamitous social and political reverberations of its policies.

The BWA bred two monster bureaucracies that were to become vital components of the Economic Gulag: the World Bank and the International Monetary Fund, "the twins" as John Maynard Keynes branded them. Coupled to the motor of finance capitalism, and the exterminist policies of US state sponsored terrorism, they would fashion the contours of the postwar world. What Bretton Woods therefore bequeathed to a stricken world was a lethal totalitarian blueprint, that in turn contributed to generate countervailing reactions.

In its blueprint for the carve up of world markets, the grand question that Bretton Woods raised was: could capitalism be stabilized by institutional and monetary reforms? If so, of what order? And by whom? And in

the interests of whom? The yearning for monetary stabilization, and a return to the fictitious harmony of the Victorian and Edwardian eras, as analyzed in *Economic Liberalism*, were smashed by the imperial holocaust of 1914-1918, and the ensuing Great Depression. Henry Ford's fantasizing in the 1920s of "a new era of endless prosperity" was demolished overnight.

There was no precedent in capitalism's agonizing history (with the obvious exception of the Middle Passage and the triangular trade) for the scale of human destruction: its endless bankruptcies, its deserted mines, its derelict factories, its stricken farms, crumbling of primary commodity prices in a long since politically crushed colonial world. This economic and social apoplexy was staggering in its ubiquity. The only country that escaped was the Soviet Union, whose industrial output doubled between 1929 and 1932.

The wretchedness of bourgeois social science again proved impotent when bludgeoned by this tidal wave of human misery. It was indeed not fortuitous that in this frenzy of desperation there came forth that knight in dazzling armour, Keynes's *General Theory of Employment and Money* (1936). It marked a revolution in anti *laisser faire* thought, comparable to that engendered by the grand theorists of economic liberalism: Adam Smith and David Ricardo (1817). Keynes as the providential saviour of the bourgeois order came to save the system not to bury it. While destroying the myth of Say's law of markets (it had been done far more effectively by Marx) he was content to add a myth of his own concoction: the trunk and the roots of capitalism were essentially healthy; what was prescribed was pruning of the branches. This called for the engineering of demand management, deficit financing, the loosening of fiscal and monetary restraints to boost consumer demand. But the powers of Keynesian medicine were of no avail to stem the tide.

Capitalism in turbulence, then as now, has always sought, and in many cases found, political solutions for its impasse. Fascism will always remain a well-tested counter revolutionary therapy for Big Capital trapped in the coils of breakdown. The cataclysmic débâcle of the Great Slump was sequelled by gargantuan fascist political stirrings, embracing the abortive activism of Douglas McArthur in the 1930s. In Germany, roared Adolf Hitler in 1932, "the streets of our country are in turmoil. The universities are filled with students rebelling and rioting. Communists are

seeking to destroy our country. The Soviet Union is threatening us with her might and the republic is in danger. Yes, danger from within and without. We need law and order." [7]

In short compass, Hitler's "Aryan race", whatever that meant, would have both: the law of the iron fist wielded in defence of Big Capital and the law and order of the crematoria. These demented outpourings of racial superiority and "law and order" now emblazoned on the Nazi swastika as the supreme expression of fascism was new to the killer nation that the Nazis had scaffolded; but the practice of Nazidom and its fury had long been known and felt on the skins and in the consciousness of all colonial peoples. The frontiers thus separating the spurious 'democratic' colonial empires — the US, UK, France, Belgium, Italy, the Netherlands, etc. — from the emergent Nazi colonial world order was one that was always blurred.

Three diabolical forces would shape the crisis-stricken years, casting their spell over Bretton Woods. The first, the unstoppable tempo of capital concentration given a gigantic impetus by the Crash itself. Secondly, capitalists surged to rationalize industry and services at a frenzied tempo by cutting costs, mainly through labour liquidation so genially enshrined in Charles Chaplin's *Modern Times*; the third, the undeclared economic war between nations.

In their classic 1932 monograph on *The Modern Corporation and Private Property*, Berle and Means of Columbia university prophetically hammered home its portentous significance: "The rise of the modern corporation has brought an unprecedented concentration of economic power which can compete on equal terms with the modern State . . . (and which) the future may see possibly even supersede it as the dominant form of social organization." Capital concentration was to be immensely speeded up in the postwar years, attaining its highest pitch with the rise of the transnational corporation (TNC) in the sixties. Already in the 1950s, four firms controlled over two thirds of the US market in several industries: automobiles, aluminium, copper, rubber, cigarettes, soaps and detergents, whisky, soft drinks, computers, sugar and iron and steel.

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7. Quoted by US Supreme Court Judge, William O.Douglas, *Points of Rebellion*, New York, 1970

The same forces that generated and sharpened the crisis in the twenties and thirties continue to play the devil to planetary capitalism save that the contradictions of the system have now been driven to far higher levels of intensity. Competitive devaluations, quantitative restrictions of every stripe, or what Joan Robinson, a colleague of Keynes at Cambridge university, would label beggar-my-neighbour policies were symptomatic of the armoury of imperialist warfare.

The reverberations of this war were boldly delineated by Sir Percy Bates, chairman of the Cunard Steamship Company, in April 1935, in an utterance that has not lost its relevance for the inter-imperialist wars of the nineties "We are going through a war . . . The arms that are being employed are not battleships, armies, aircraft, but tariffs, quotas and currencies. No international monetary standard is recognized, and every time that a tariff, quota or a currency varies, one is confronted with a manoeuvre, a hostile manoeuvre, a war manoeuvre. The worst of all is the reluctance to admit officially the existence of a state of war."

Capitalism no longer displayed its earlier resilience to drag itself out of its own stagnationary pit. As several of its more percipient theorists came reluctantly to acknowledge, it was once again an imperial war and preparations for that war that ended — momentarily — the Great Crash. Sir William Beveridge in his illustrious book on *Full Employment in a Free Society*, published in the same year as Bretton Woods, opined that even at the zenith of the cyclical upswing more than a tenth of the UK work force was jobless. "This was the best thing that an unplanned economy could do". And added lugubriously: "A repetition of 1929-32, even more severe, was setting in". It was his conviction, which he deemed pedestrian, that "the only sovereign remedy yet discovered by capitalism for unemployment is total war."

It was also Hitler's sovereign remedy for tackling unemployment. To be sure what the Pentagon dubbed military Keynesianism, that is arms expenditures of trillions of dollars by the US, and its NATO satraps during the Cold War, provided a colossal booster to industrial capacity and employment.

Likewise, in the summer of 1939, *The Economist* confessed that there was nothing to stop the gathering deflation in the US economy, which huge New Deal expenditures only spasmodically reversed, from capsizing into the abyss of another Great Depression.

What sprung from Bretton Woods was not therefore a coherent international trading and monetary system that weighed judiciously the interests of the richer and poorer countries, the big and the small, but rather one that bore the bite marks of the dominant imperial hegemony, engineered to meet its current and future designs of corporate and national aggrandizement.

The Dollar Gold Exchange Standard, the monetary equivalent of Theodore Roosevelt's Big Stick, was underpinned by the conversion of dollars into gold at US$35 an ounce. In short, the dollar was as good as gold. Obviously, a stratagem that corresponded to US corporate interests at a specific historical moment; but it would not always be so. Corporate capitalism had boisterously sought to make its interests synonymous with those of the nation. Given their premises there could be no contradiction.

In the legendary quip of Charlie Wilson, chairman of General Motors in 1946: "What is good for America is good for General Motors and vice versa." He was Eisenhower's secretary of defense during the Korean war in which GMs shares rose to meteoric heights, fattened by war contracts. This illustrates once again the interdependence of the Corporate Gulag and the state apparatus. After the war Eisenhower had acquired a sizeable segment of GMs stock. He was always schizophrenic about his money politics and timid about acknowledging his personal fortune. His coining of the designation "the military industrial complex" was born of first hand experience; it was also a personal smokescreen that concealed his corporate connections.

The workings of the international monetary system over the last 150 years, as *Economic Liberalism* pinpointed, was not only an ensemble of financial institutions, legal procedures and arrangements governing currency flows and transactions across national frontiers, but the reflection of the deployment of naked politico-economic power in the service of capital. Quintessentially, the design and functioning of the international monetary system is not an impartial arbiter; it is not a class-transcendent system as its ideologists insist; but an implacably exclusionary class system. It is a massive aggregation of economic and political power, blueprinted to perpetuate the interests of the masters of global finance capital: the world's Top 200 TNCs.

The gist of Bretton Woods was that it was born under the direct management of a single hegemonic power that had drained the world of its gold resources. Behind the belligerent stance of the US negotiators, and

inseparable from it, stood "the Military Industrial Complex", that defines the confluence of State terrorism and corporate capital. The aggressive economic muscle that the US flouted so brazenly was paralleled by a military leverage of formidable proportions. Compared to Yugoslavia, the Soviet Union, China, Germany and Japan its wartime casualties were trifling. The war proved a benediction of unimaginable magnitude.

The holocaust visited on Hiroshima on 6 August 1945, was swiftly repeated three days later by another on Nagasaki. The criminally superfluous mass liquidation of 450,000 men, women and children was indubitably the military counterpart of Bretton Woods. A grim reminder for those wavering souls who did not get the message that a New Imperial Order had germinated one that would dictate the agenda of what was and was not desirable in international relations. As senator Taft frivolously put it: the world that was coming into being was one that would be draped in the colours of the stars and stripes and briskly march to the tune of Yankee Doodle Dandy.

In an idiom, redolent of Hitler's Final Solution, General Groves, head of the Manhattan Project trumpeted that the bomb was destined primarily not against Japan, but against the Soviet Union so that it would squarely grasp the coordinates of world power and learn fast how to straighten itself out. Outrageous as this Cold War proclamation was, the abrasive policy reflection was targeted not only to the Soviet Union, but to all real and imagined challengers to US hegemony. It crystallized the master-idea of Truman and his secretary of state, Byrnes. A week after the holocaust visited on Japan — to the amazement of Keynes — Lend Lease was cancelled, except for Chiang Kai Chek. US intrusion in the Chinese civil war had began. Over ten million Chinese would perish from war, famine and disease. Imputable largely to the US administration.

George Kennan, one of the Cold War's major theoretical hatchetmen, grasped the prodigious potential of deploying the resources of Nazidom, and specifically the SS, in the anti-liberation crusade. The idea was conceived even before the liquidation of Nazi Germany. Indeed, it was on the instructions of the State Department that a colonial France deployed the tens of thousands of Nazis and other European fascists for the fleshing of Indochina, in addition to the use of Senegalese and North African colonial troops. US strategic goals were concisely spelt out in his State Department Policy Planning Study number 23, published at the start of 1948. Such sustained single-mindedness possesses a remarkable historical dimension

as it defines the continuity and centrality of US state terrorism as a systematized instrument of power for well over a century.

> "We have about 50% of the world's wealth, but only 6.3% of its population...In this situation, . . . our real job in the coming period is to devise a pattern of relationships which permit us to maintain this position of disparity. . . To do so, we have to dispense with all sentimentality and day-dreaming; and our attention will have to be concentrated everywhere on our immediate national objectives. . . We should cease thinking about vague and unreal objectives such as human rights, the raising of living standards, and democratization. The day is not far off when we are going to have to deal in straight power concepts. The less we are hampered by idealistic slogans the better".

Despite its commendable candour — it was in fact a top secret document — a rectification is called for. The US caste oligarchy since independence (1787), and the white predator colonists before them, had always dealt in "straight power concepts" of violence and exterminism. Slavery and the massacre[8] of the indigenous Americans, as well as the class violence, harassments and rabid witch hunts to which US labour has been perpetually subjected, are blatantly illustrative of the deployment of "straight power concepts". Or as the American freedom fighter Rap Brown always noted: "Violence is as American as apple pie." He knew, for he was to pay the ultimate price of freedom with his skin.

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8. The father of the nation and first president of the United States, George Washington, summed up the trajectory of exterminism in a letter of 1783. "Indians have nothing human except the shape . . . the gradual extension of our settlements will as certainly cause the savage, as the wolf, to retire; both being beasts of prey, tho' they differ in shape." The beasts, however, did not retire; they were butchered. In a state of utter desperation, the first Commissioner of Indian Affairs, depicted the horrors of US power in the 1870s. "Although this country was once wholly inhabited by Indians, the tribes, and many of the once powerful, who occupied the countries now constituting the states east of the Mississippi, have, one by one, been exterminated . . . If any tribe remonstrated against the violations of their natural and treaty rights, members of the tribe were inhumanly shot down . . ." Quoted in that superb emotionally packed narrative by Dee Brown, *Bury my Heart at Wounded Knee; An Indian History of the American West*, New York, 1971. Also James Welsh and Paul Stekler, *Killing Custer: The Battle of the Little Big Horn and the Fate of the Plains Indians*, New York, 1995.

No historical reflections that I know of have ever depicted more accurately and poignantly the unremitting, dramatic and crushing US culture of terrorism than the thunderously scathing prose of the African American novelist, Nelson Peery:

> " If the Americans had never committed genocide against the Indians; if they had never incited wars of annihilation between the native peoples of the land, if there had never been a Trail of Tears; if America had never organized and commercialized the kidnapping and sale into slavery of a gentle and defenseless African people; if it had never held carnivals of torture and lynching of its black people; if it had never developed the most widespread, brutal, exploitative system of slavery the world has ever known; if it had never sundered and torn and ground Mexico into the dust; if it had never attacked gallant, defenseless Puerto Rico and never turned that lovely land into a cesspool to compete with the cesspool it had created in Panama; if it had never bled Latin America of her wealth and had never cast her exhausted people onto the dung heap of disease and ignorance and starvation; if it had never pushed Hiroshima and Nagasaki into the jaws of hell — if America had never done any of these things — history would still create a special bar of judgement for what the American people did to the Philippines."[9]

History does not stand still. The systematic rape and rapacity to which the Philippines had been witheringly subjected over a century of colonial gulagism was not the end of US mass exterminism. There is no need for "a special bar of judgement" with respect to the Philippines. World War II was not the terminal point of US fabricated holocausts of Third World peoples. It marked an inexorably new turning of the screw. The ensuing five decades would compound and surpass in sheer terror everything that preceded it; it would witness US perpetrated holocausts upon holocausts — directly and indirectly — tens of millions of Third World peoples of colour straddling the seas and the continents.

From his ruling class pinnacle, Kennan conformed to the canons and traditions of American ruling class violence and intimidation when he clamorously advocated that policymakers should forget the rubbish of

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9. Nelson Peery, *Black Fire*, New York, 1994.

human rights. They had never forgotten such prescriptions. The value of Kennan's formulation, to which we must be grateful, is that it highlights a basic truth of enormous ramifications: US advocacy of human rights are nothing more than a cesspool engineered to dissimulate the rapacity of its domestic and foreign policies. It was this at least that demarcated the self-perpetuating US caste oligarchy from its SS protégés, for whom the world was starkly divided into human and sub-human categories.

Contradictions within imperialism will always remain one of its glaring and permanent traits. Comparison with the United Kingdom revealed the perennial truth of Mahatma Gandhi: "there can be no such thing as equality between unequals." What the US Bretton Woods diktat underscored was that the complex of Big Power politics wedded to Big Capital bore little resemblance to the theoretical trading model of comparative advantage conceptualized by David Ricardo.

The model postulated an equal relationship between Portugal and the UK that traded textiles for wine. At no time, however, either in the pre or post Mercantilist eras, had the political economy of power ever been expunged from the practice of international trade; it could never therefore be a competitive universe of economic harmony. The categories of supply and demand, in the context of perfect competition, gave at best a superficial schema of the system's workings. The ultimate fall of economic liberalism, depicted in the US/UK master-servant relationship at Bretton Woods, marked a turning point in the balance of imperialist power.

Due in large measure to the burdens of war, about one quarter of the UKs pre-war national wealth was wiped out. The aged lion had crumpled. Injected into him was the dose of humiliation. When a humbled British delegation rashly made a last bid to growl, in a woeful rearguard action, by intimating that the Fund should not be located in the USA, because of the direct pressure to which it would be directly subjected, the whip of Dean Acheson cracked: this was not a negotiable issue. The US Congress and finance capital dictated that its location could only be in one place, and so it was: Washington D.C.

Vital as Bretton Woods was for the realization of the expansionist thrusts of US corporate capital worldwide it must be evaluated as the first wave of a sweeping political, military, economic and ideological offensive. It was an engine of death that was to tear apart the lives of millions of

Third World peoples. Bretton Woods is thus a grand climacteric in the political economy of power: it signalizes the triumphal march of the caste oligarchy and the gathering tidal wave of the US Economic Gulag.

The IMF was an instrument for short term credit; the Bank for long term loans. Both were grossly inadequate to meet the ever widening global reach of corporate expansionism. Nonetheless, the services of the IMF were imperative; it had become an indispensable auxiliary to US strategic and corporate predation. The IMF barred countries receiving Marshall handouts from using IMF resources. The upshot was that the immensity of global annexationism sought by John Foster Dulles,[10] Cordell Hull,[11] James Forrestal and the Pentagon could not be achieved by the twins foraging on their own.

This was a major reality that twitched the conscience of a debilitated Keynes in his waning days, but which he was impotent to battle. Rather what imparted to Bretton Woods its virulence were the massive reinforcements of the Marshall Plan and the punitive battalions of the Truman Doctrine proclaimed in his speech to Congress on 11 March 1947. In a

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10. The stratagem of deploying State power to acquire larger world market shares was evidenced at all phases of capitalism's history, including the heyday of *laisser faire*. It was the linchpin of the Marshall Plan. On the threshold of the Great Slump in 1928, top corporate lawyer and future Cold War crusader, John Foster Dulles stressed its importance: "We must finance our exports by loaning to foreigners the wherewithal to pay for them. Without such loans, we would have the spectacle of our neighbours famishing for goods which are rotting in our warehouses as unusable surpluses." Quoted in William A. Williams, *The Tragedy of American Diplomacy*, New York, 1962.

11. As one of the most prominent Wall Street bankers and State Department strategists he was obsessed by the rivalry of British imperialism and the obstacles it placed in the way of US exports on world markets. This is what he meant when he invariably began every official discourse with the trite war cry: "I am an anti imperialist." When someone raised the issue of the independence of the Philippines his curt answer rang true to Manifest Destiny: "We brought civilization to them, didn't we"? He failed to dent the Brtish empire, as Lord Beaverbrook said he would. But the war and the blackmail of American Lend Lease provided him with the first stick of dynamite he needed for the demolition job. As was to be expected, he was one of the virulent propagandists of the Marshall Plan; in this he was at one with his kin in the caste oligarchy, who saw the American stratagem as a battering ram for liquidating British imperial preferences, thus blazing new paths for US exports and power. See his highly revealing *The Memoirs of Cordell Hull*, 2 Vols., New York, 1945.

blinding flash international law was transmogrified into the law of the strongest beyond the realm of accountability. As such it would remain a constant of US policy in the years ahead.

The grip of the political economy of power enshrined in the Bretton Woods Agreement indicated that it was sanctimoniously finalized, not in New Hampshire, but in the boardrooms of finance capital. To be politically marketed, the Marshall Plan demanded a special elixir. Anti-communism and the fiction of the Evil Empire did the trick with a showbiz blitz that even staggered the expectations of its fixers. The defunct platitudes proliferated: the nostrum of 'power vacuum' and the 'domino theory' served their purposes, destined to be relentlessly recycled. Listen to Dean Acheson, the bulldozer, (the sobriquet conferred on him by his intimates in the State Department) hustling his "rotten apples" repertory.

> "Like apples in a barrel infected by one rotten one, the corruption of Greece would infect Iran and all to the East. It would also carry infection to Africa through Asia Minor and Egypt, and to Europe through Italy and France, already threatened by the strongest domestic communist parties in Western Europe. The Soviet Union was playing one of the greatest gambles in history at a minimal costs . . . We and we alone were in a position to break up the play." [12]

Indeed, what Truman labelled "imperfect democracy" in Greece, as Vice President Henry Wallace riposted, was nothing more than US blatant subsidized fascism.

Rigorous ropes of conditionality were strung to the recipients necks. On all counts: political, economic and military it was the march triumphal of US imperialism. Not merely was US money and Marshall "aid"

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12. Dean Acheson, *Present at the Creation: My Years in the State Department*, New York, 1969. Together with Bernard Baruch, he was one of Wall's Streets most articulate and richest bankers. He was also a top corporate lawyer and financial wheeler dealer. Before the war he piled up a huge personal fortune by his fabulously successful speculations on futures markets and real estate. He rocketed this mega fortune to even greater heights by his dealings on war contracts as an insider. Perhaps more than any other representative of the caste oligarchy he played a decisive role in mobilizing the ranks of finance capital to sell the Marshall Plan. No less vital is that Acheson, like Dulles and Forrestal, incarnated the Cold War marriage of finance capital with big time Cold War politicking on Capitol Hill.

reimbursed at exploitative interest rates, but US corporate capital seized entirely new markets, the tobacco industry in Germany being a striking conquest. Further, US geo-political control was reinforced thanks to an ascendant and subservient European political caste that gained prodigiously from being on the payroll in diverse ways.

The political resuscitation of the quasi-fascist political right in France and Italy, that sold its carcass to the Nazi occupant, owed its revival to US funding and patronage. Such mammoth financial transfers was lavished on the Christian Democratic parties in Germany and Italy, strikingly so on the Vatican, destined to become a paramount acolyte in the Cold War crusade, thus once again pursuing its activism on an immensely vaster historical canvas than it did so unstintingly, and on such a lavish scale, as a militant fascist activist in the interwar years — and its aftermath, conspicuously so in Vietnam, Argentina and Central America . . . This time switching its unconditional fealty to US imperialism. Had not the British conservative party always been traditionally blessed by the largesse of

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13. It is now widely recognized that the symbols and substance of British capital: a Hanson, a White and a Murdoch (in addition to being a TNC media mogul he also straddles several passports: British, American and Australian) and a string of around 150 prime industrialists and financiers have poured tens of millions of pounds into the Tory political maw. There is no accountability to these benefactions as they are labelled by the party apparatchiks. Such handouts predate of course 1914, illustrating once again the imbrications of the economic engines under capitalism. Professor Herbert Feis noted that "in the small circles of power, financial power was united with political power, and held mainly the same ideas". Partners of the important finance issue houses figured prominently in both Houses. *Europe, the World's Banker: 1870-1914*, Yale University Press, 1930. The reality of non-accountability at the global level is partnered by total non-accountability at the highest echelons of the party pyramid. Shrouded in greater obscurity has been the funding of the Tory machine by the CIA and other foreign corporate bodies. The fragments of evidence that are available is revelatory. During the high noon of empire, the Tory apparatus was abundantly greased by African tribal chiefs, most of whom owed their status and rich pickings to British ruling class politics. Such loyalty was handsomely repaid. Other sources comprised the immense funding by South African mining, banking and industrial concerns, not least the Oppenheimers. It is this self-reinforcing network which explained — apart from the ingrained, quasi-congenital Tory hatred for Blacks and coloured peoples — the uncompromising defence of the Thatcher administration of Apartheid South Africa. Understandably, she was duly awarded with the country's highest honours; and no doubt much else besides. Also, one of the most lavish `bankrollers', as they are quaintly categorized in Tory lingo, was the Nizam of Hyderabad, the Indian princes and a wide assortment of sultans in S.E. Asia — in short, the most repressive and grovelling quislings of empire.

both national and international capital?[13] This was understandable for as ex-Prime minister, David Lloyd George so thunderously insisted in the thirties: "Scratch a Tory and you will always find a fascist". A thesis that Big Capital had always found congenial to its heart and pockets.

Likewise, as revealed in October 1994, Japan's Liberal Democratic Party (LDP) had been financed by the CIA for almost three decades. As a political offshoot of the McArthur occupation it was patched together from the scum of the old political order and the Zaibatsus.[14] Japan's equivalent of the Marshall Plan was the Dodge Plan whose mechanism was identical to the Marshall plan: the greenback being the fixed unit of the US imposed international monetary order. In addition to the Dodge Plan, Japan was showered with millions of dollars from private anti-communist funds, US corporations and a whopping variety of US government money, notably the US Department of Agriculture. What historical research has now illuminated is that considerable inflows of international, Nazi and US funds had flowed into Japan in the inter-war years to liquidate the trade union movement and other labelled "subversive organizations".

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14. The Zaibatsus (or family cliques) were institutional creations of the Meiji revolution (1868). Originally, they were associated with 4 family firms: Mitsui, Mitsubishi, Yasuda and Sumitomo. Mass privatizations of public sector firms in the 1890s greatly spurred the burgeoning of Zaibatsu power. The study of these institutions is necessary to understand not merely the development of capitalism within that island empire, but also to grasp the lineaments of oligopolistic and conglomerate capitalism in its larger international setting. In fact, the Zaibatsus were oligopolists and conglomerates before these designations were formulated. Wars and colonial conquests extended their corporate web. During and after the triumphal Sino-Japanese war (1898) and the Russo-Japanese war (1904), their powers multiplied prodigiously. They generated the industrial muscle and financing for the wars of imperial conquest. The integration of the Zaibatsu concerns led to the establishment of holding organizations as control centres. Zaibatsus developed as capitalist enterprises by the combined investment of the State and the rich families. Gradually, through differentiated and multiple management, they became comprehensive interlocking groups of industries under a single control. Their power extended within Japan and its empire to: (1) banks, finance and insurance companies; (2) coal and other activities; (3) heavy industries, including metal working, machinery, shipbuilding, aviation and chemical; (4) shipping, warehousing and international trade. The Zaibatsus constituted the first military industrial complex of the 20th century. See also *Report of the United States Mission on Japanese Combines* (known as the United States Zaibatsu mission), The War Department, Washington,D.C.,1945.

With these colossal cash flows, the reconstituted Zaibatsu ruling class, and its LDP political subsidiary, grabbed unbridled media control. In time, it was to use this pervasive and unaccountable leverage to speed up its own plans for global expansion. This comprised the unspoken racist resurrection of General Hideki Tojo's (1884-1948) "Greater Asia Co-Prosperity Sphere," or its contemporaneous face-lifted version of Japan Inc. US imperialism incubated postwar Japan in its own image; in turn, a reincarnated Tojoism, now flaunting a democratic mask, was slated to become one of the most implacable antagonists of US imperialism, thus massively contributing to the relative shrinkage of US power. The US caste oligarchy nourished the delusion that it had domesticated Zaibatsu power once and for all. In less than two decades that delusion was shredded.

The 1945 postwar boom owed nothing to the wheeling and dealing of Bretton Woods, but to the big pool of purchasing power accumulated during the war years in North America, as well as the rich pickings of the huge potential markets of war-shattered Europe and Japan. The US instigated Syngman Rhee's war in Korea[15] and Indochina bestowed golden gifts to the US arms industry, as well as powered the Japanese boom. Japan's postwar takeoff owed much to the fleshing of Asian peoples by US generated wars. Once those ephemeral conditions that triggered the immediate postwar war boom petered out, towards the end of the 1960s, capitalism's instability swiftly resurfaced.

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15. See I.F. Stone, *The Hidden History of the Korean War*, New York, 1965 The world owes much to this distinguished journalist-historian for stripping away the falsifications of the official lie machine. The record remains to be plumbed, but this work still remains one of the most informative and superlatively researched documents concerning the US instigation of the Korean war. The NSC document No. 68 that appeared just prior to the start of the war in 1950 was an important blueprint of the Cold War. The causes and aftermath of the war highlighted the "Grand Area" strategy which defined US interests worldwide. It was an elaboration of the Kennan report. It was also designed to vitiate the Asian wars of liberation. It also provided the refurbished rationalization for boosting arms expenditures. On the complicity between Syngman Rhee and the US caste oligarchy in triggering the war, see also the excellent surveys of Channing Liem, *The Korean War: An Unanswered Question*, The Committee for a New Korea Policy, 1989; Bruce Cumings, *The Origins of the Korean War*, 2 vols, Princeton university press, 1990; James Cotton and Jan Neary (ed), *The Korean War in History*, New Jersey, 1989.

The *Pax Americana* lasted less than three decades. Something far distant from "the American century" concocted by media tycoon Henry Luce in 1942, owner of *Life, Time* and *Fortune*. Paul Robeson, the distinguished Afro-American artist and humanist, in his scathing rebuke drove home the point: "No doubt you've got *Fortune* Mr. Luce, but you can't buy *Life* and *Time* is not on your side."

The US caste oligarchy's conquest at Bretton Woods turned into its opposite. The unravelling of the omnipotent dollar was inherent in the contradictions of the system. Stemming from the reckless, wanton and unscrupulous printing of greenbacks, unbacked by reserves, the Bretton Woods Agreement was battered to its knees. Swelling inflation, ever mounting Himalayan debts and deficits induced by imperial overstretch exacerbated the crisis. The American empire that attained its apogee in the forties, fifties and sixties began to reveal the first tremulous symptoms of economic and political apoplexy. Collapse of the Dollar Gold Standard gave way to the desperate and chaotic expedient of the Floating Exchange Rate System. Or better still no system at all.

Nixon, a cornered crook at the end of his wits, sought diverse expedients to mitigate the calamity: an import surcharge, suspension of gold convertibility in August 1971, two formal dollar devaluations in swift succession, recourse to floating exchange rates in March 1973. Quadrupling of oil prices in late 1973, proved unequivocally that the US political caste had deliberately and unilaterally repudiated all semblance of monetary discipline and international cooperation. The Watergate tapes revealed Nixon at his expletive best: "I couldn't give a shit for the Italian lira." Those were his private meditations on an erstwhile "ally". What mattered here was not the sordid arrogance of Nixon's private musings on monetary policy, but the world's concern about its own unremitting exploitation via the medium of a manipulated dollar; and it acted accordingly.

In the current crisis-ridden cockpit of stagnation, there is not the remotest possibility of reconstructing an international monetary order as attempted at Bretton Woods. The foundations on which that jerry built structure was scaffolded are demolished. Bretton Woods it must be stressed, at a time when certain nostalgic spirits are bellowing for its resurrection, was the outgrowth of a certain configuration of global capitalism that is no more.

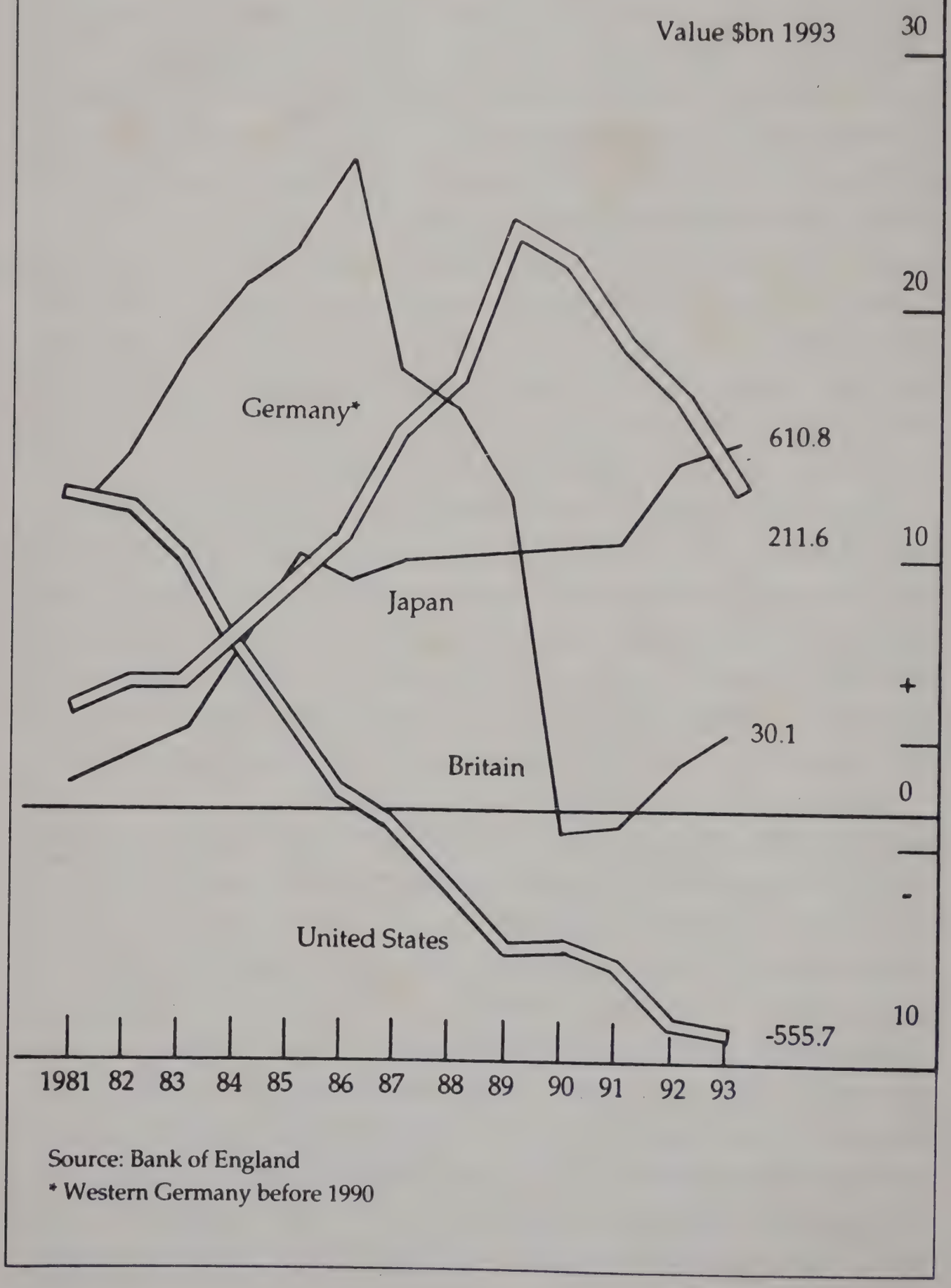
The frantic tempo of liberalization and deregulation of financial institutions and capital markets controlled by the big banks, pension and mutual funds, insurance companies and other non-financial TNCs have obliterated world monetary order and discipline. Private capital flows rocketed from less than US$600m in 1973, to over US$2.6 trillion by end 1994. World capital markets, dominated by transnational banks, will vastly grow between now and the end of the century. Value of world financial assets are expected to climb from US$35 trillion in 1992 to US$83 trillion (US$53 trillion in 1992 prices) by 2000. The world's central banks have thrown in the sponge; their individual and combined capacities to control or discipline these torrential money avalanches are nil.

The scale of uninhibited capital inflows and outflows must be projected against the mounting insolvency of the US economy. Fifty years after Bretton Woods, the greenback is not only a battered, depreciating currency but the US is the world's biggest debtor by far, living off borrowed time and borrowed money. US corporate, private and public debt hit record levels by end 1994 and are still soaring.

These debt mountains were creations fathered by criminal fiscal irresponsibility. A state of affairs momentarily alleviated by the world's savings. The time, however, when Japanese savers poured billions into the American bond and equity markets, thereby mitigating or postponing the final day of reckoning, is quickly drawing to a close. The Reagan cabal had left the US freighted down with an extra heavy load of debt, as the junta embarked on an unprecedented and unbroken series of deficits.

The grim numbers tell the story: by end 1994, the US current account deficit hit US$160bn; according to US Treasury officials it is set to climb to US$200bn by end 1995. To this ominous number must be added long term capital outflows of US$50-60bn yearly. There are no signs of approaching reversal. Since 1981, the US has shifted from being the world's biggest creditor to its biggest debtor. By end 1994, the US had net foreign debt obligations of over US$600 billion. For a long time the perceptible slippage in overseas wealth was ignored. The income flows are now negative. On the assumption that the US trade deficit, including transfers, remain at around 2% of GDP the outflow would build up rapidly. What are the implications of these negative flows? It would mean that the US current account deficit would continue to climb; and net foreign debt too.

FIGURE 1. *Net External Assets as % of GDP*
1981 - 1993



Source: Bank of England
* Western Germany before 1990

Where will the credit come from to repay these deficits? Interest rates charges and reimbursements are already absorbing a sizeable segment of its Federal revenues. Has the US ruling caste forgotten the arithmetic of compound interest? This ruinous conjuncture would even be worse if interest rates rose, and the trade balance further deteriorated.

From under 20% of GDP in the early 1980s, net debt increased to 30% by the end of Reagan's reign., and is slated to outstrip 40% in 1995. This has been partnered by a decline in household savings from around 11% of disposable income to a wobbly 3-5% at present. What these appalling numbers of neglect dramatize is not only the extent to which an impoverished US is living beyond its means, but also how rapidly the debt cancer has spread. Of course, such levels of indebtedness are by no means unique to the US but of all OECD economies gripped by unmanageable monetary upheavals and bedevilled by gimcrack financial institutions.

TNCs that dominate the triple sectors of the world economy are a major bulwark blocking any coherent international monetary guidelines. Today, more than at any time in capitalism's history, the profits of finance capital are based on debt and exponential debt creation. Private, corporate, and household debt worldwide surpasses US$31 trillion, galloping at a compound growth of over 9% yearly, or three times faster than that of world GDP and world trade. It is clear for whom the bells are tolling. The tocsin is heard.

These disparate rates between world GDP and world debt are unsustainable, and have already commenced to rip apart the fabric of the international financial system. This being so, at what point it may be asked will the financial bubble burst in the absence of an unregulated international monetary system? That question cannot be answered with any precision. Because of world capitalism's unsynchronized workings the bubble's bursting will not, and cannot, occur at a specific nodal point in time. Implosion of Japan's bubble economy in 1992 and the start of the Mexican financial debacle at end 1994, that spells NAFTA's crumbling, is a mild foretaste of what is building up.

What transpired in Japan, and what is happening in the labyrinthine innards of finance capital is already adversely impacting world output, trade and employment. TNC banks and insurance companies, exemplified in Japan Inc, flouted national legislation thanks to the complicity of

the LDP. Japanese finance capital operated, in effect, outside any national jurisdiction. It made the laws; and it stood above the laws. The awesome cracks are not susceptible to being plastered over; in short order, the system is heading for the rocks. In addition, the warp and woof of finance capital is fused with an unfathomed network of organized crime whose master planners are niched within MITI, the banks and the political caste. Japan Inc is not a solitary swallow. Nor is Mexico with its grotesque democratic facade that has been misruled for 60 continuous years by a single self-perpetuating ruling cabal that no longer makes any pretense of concealing its social depravity, corruption and institutional repression. To paraphrase the metaphor of Eduardo Galeano, the open veins of Mexico are visible to all.

Corporate balance sheets, as even minor clerks in Tokyo, Paris, Frankfurt, Zurich, the City and Wall Street know, are barefaced lie machines engineered to shroud criminal wrong-doing, not least kickbacks of all conceivable species, wholesale tax evasion, currency laws and transfer pricing. Crimes of the totalitarian TNC finance complex could not, however, have been consummated without a hook-up to the big-eight corporate accounting oligopoly. Sizeable chunks of these cash flows are being shovelled into the money boxes of all political formations: the USA, the UK, France and Italy display some of the most succulent recent specimens.

Six years after the fall of the Berlin Wall and the rhetorical hallelujahs to the untrammelled operation of "free markets", with its promised miracles, where are the vaunted victories of economic liberalization to be discerned? Privatization, as a manifestation of legal theft in the interest of capital, is a device for filling the State's empty coffers. This is a one shot game. Where does the money go after the nation's patrimony has been pillaged and sold off as even such an end-of-the-road teetering politico as President Mitterand exclaimed. The question is timely and appropriate even if it emanates from a Tammany Hall political handler that has consecrated his entire public life to buttress the rule of French Big Capital.

The juggernaut of liberalization continues to be an agency of mass impoverishment for the Third World, and the quasi colonies of East Europe and Yeltsin's Russia, that have now been flung into the Third World's orbit. Aggregate Third World debt burgeoned from US$450m in 1980 to US$1.4 trillion in 1994. In that interval, the death grip has not loosened.

Third World debt no longer hits the headlines, but that does not mean that it has ceased to spin out of control. Soaring interest and principal of this debt will never and cannot be repaid. This points up to the imperative of wholesale and unconditional debt repudiation. There is no other choice.

Soaring debt, plummeting primary commodity prices, joined to protectionism in the OECD economies raises the spectre as to how long the Third World can endure this financial bleeding? It is already all too apparent that their capital outflows, indebtedness and economic crises have impacted catastrophically on their political and social structures. Recall, as the conservative ILO reminds us, that their joblessness has savaged a third of their labour force. Those in the Third World, and in the ex-Soviet Union, that continue to flourish from the fruits of liberalization, deregulation and restructuring are the rich and the super-rich of which a Mobutu, a Salinas, a Marcos, a Suharto are prime exemplars: the prototypes and pillars of US Third World state generated terrorism.[16] They are ubiquitous but their political presence is mandatory even in pseudo parliamentary trappings.

IMF estimates of Third World annual profit outflows, interest and dividends of US$170bn are understated. They fail to convey the drama of its bleeding. Due to the TNCs connivance in capital flight, and other licit and illicit transactions, yearly outflows exceed US$200bn. Superimposed on these gargantuan sums is the Third World's brain drain. Fanning the flames of this non-stop pillaging is the revolution in information technology by which billions of dollars are catapulted around the world with the flip of a computer key. On that score, just reflect on the mind boggling implosion in the capital and foreign exchange markets, symptomatic of the Economic Gulag gone berserk.

In 1986, some US$290bn were transacted on foreign exchange markets daily; by 1990, the numbers topped US$700bn; by end 1994, these flows hit US$13 trillion.[17] Only a tiny fraction of these sums are slated to finance

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16. On the wider implications of US State terrorism, see Noam Chomsky, *Deterring Democracy, London*, 1991; Edward Herman and Gerry O'Sullivan, *The Terrorism Industry*, New York, 1990; Alexander George (ed), *Western State Terrorism*, London 1991.

17. McKinsey Financial Institution Group, *The Global Capital Market: Demand, Pricing and Allocation*, 1994.

productive job creation. This is the crux of the Economic Gulag whose name is Skullduggery Inc as a Wall Street lawyer pungently branded it. In other words, raking in Big Money El Dorados in split seconds, twenty four hours a day, gambling on the minutest of margins, with that commodity of commodities — money. Global industrial capacity hovers at 75%. In the absence of outlets for productive investment, capital gushes precipitously into all the sewers of casino financial instruments: futures, options, derivatives, etc. This is the overriding rationale of the Las Vegas International Parasitical Order.

Growth of foreign direct investments (FDI) have made a mockery of foreign exchange controls, and indeed of monetary policy. From less than US$700bn in 1975, worldwide FDI stock now exceeds US$23 trillion, shuffled around the globe by a handful of mega financial titans.[18] These numbers refer to recorded flows. In contrast, unrecorded flows approximate US$700-800 billion. To these sums must be superimposed the US government estimate of US$225bn from yearly narcotics merchandizing. This would bring the aggregate FDI flows beyond US$3 trillion. What these stratospheric numbers pinpoint is that there is no world capital shortage; but rather a lamentable situation in which world capital resources are blatantly skewed and manipulated by a tiny number of wholly unaccountable mega finance capitalists.

Third World political oligarchies invariably function behind formal parliamentary facades, designed to meet the promotional US public relations "human rights" stunts and the World Bank. In conjunction with the antics of the political oligarchies in the centre, the indigenous compradores in the periphery perform the belly dance of "democratic" stuntmanship. The pickings are lush. Consider the constitutional "democracy" of Brazil. According to official government findings, Brazil's 460 wealthiest millionaires — that is the mega-rich — paid US$32.5m in income tax in 1992, out of total assets of US$26.7bn; or a tax rate of 0.12 %.[19] This is the hall mark

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18. Unctad/UNTC, *World Investment Report: Transnational Corporations, Employment and the Workplace*, Geneva, 1994

19. *The New York Times*, 11 November 1994. Was it surprising given the nature of the class power imbrications of the super-rich that Collo de Mello, former prime minister impeached by the national parliament on charges of mass financial embezzlement, (and

Continued next page

of "the free world." When President Juan Goulart was constitutionally elected to overhaul the tax system to introduce a modicum of social justice he was ousted by the triad: the military, the oligarchy with the CIA and the World Bank as the supreme coordinators.

In Brazil and elsewhere, Capital is never a faceless phenomenon. These 'big whites' as they are contemptuously baptized in Brazil, are the beneficiaries of a spate of gigantic state subsidies, deregulation, privatization and the workings of savage capitalism. Their market freedom engulfs the mass murder of Indians and the expropriation of their best lands for cattle ranches and forestry. That in a country where official unemployment (and obviously they are derisory) is 31.3%; where illiteracy is 60%; where life expectancy is slightly higher than that of Haiti, but which smashes all records with the world's highest crime rate. Let's look at these numbers in another perspective: the aggregate assets of the mega 460 billionaires are comparable to two of Brazil's largest neighbours: Peru and Bolivia.

A similar dire picture unfolds in Nicaragua in the aftermath of the bogus "democratic" ouster of the Sandinistas, the only popular government that the nation has ever known, by US engineered electoral fraud: "The Nicaraguan elections were decided in the boardrooms of the banks and the strategy sessions in Washington, New York, London, Zurich and Bonn, even though they were cast in Nicaragua", noted a US Central American specialist, Prof. James Petras. And added: "the Nicaraguans voted with a boot on their chest and a gun to their head." To be sure, a parliament exists, phoney as it may be, but the effective domestic locus of power is the American embassy in Nicaragua.

The US gerrymandered election, that shoved the oligarchy once again into power, did the trick together with the IMF/World Bank restructuring adjustment policies. The upshot was the unconditional restoration of US corporate power in Nicaragua, in conjunction with their indigenous thugs who played a pivotal role in the Contra movement: the coffee and

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whose family is a member of this tiny elite of mega capitalists and big landlords) was exonerated of all wrong doing by the Supreme Court on the basis of 'insufficient evidence'? The real reasons, as divulged by one of the dissenting judges, was that the ruling Brazilian social order considered that an indictment followed by incarceration would have weakened the cohesion of this historically important segment of Brazilian capitalism. Particularly at this moment when the social stresses and strains have reached such threatening proportions.

plantation latifundistas, the resurrected Somoza National Guard, the big time cattle ranchers, the banks and insurance companies.

According to an official government report, real per capita income dived 48% since 1989. Unemployment is 60% of the work force; the nation's foreign debt at US$11bn is eight times that of GDP; four fifths of its liquid foreign loans is gobbled up by mounting debt service payments; capital flight by the domestic oligarchy and transfer pricing outflows by US corporations have hit stratospheric levels. Oscar Rene Varga of the finance ministry encapsulated in a luminously pithy metaphor the descent into economic purgatory. "This is the `Africanization' of Nicaragua. We won't be able to return to the levels of 1989 for 25 years" Such is the bestial price exacted by US state terrorism and its hand maiden, structural adjustment.

The breakdown tendencies inherent within global capital, with debt and indebtedness as one of its salient facets, must also be assessed in relation to TNC power over time. The TNCs emergence in the sixties marks an uninterrupted movement of capital concentration. Corporate aggrandizement is an unstoppable force. Mergers and acquisitions in the US alone in 1994 reached US$336bn, surpassing the record US$335bn in 1988. Between 1988-1994 the lowest annual figure was US$305 billion. The total value of these mergers and acquisitions for the seven year span was US$2.76 trillion. These numbers refer only to the USA that embraces a third of the aggregate value of world mergers and acquisitions. On a global basis for the seven year span the sums exceeded US$6 trillion. If this horrendous trend of wholly unaccountable concentration and centralization of capital surges unabated the number would not be far short of US$12 trillion globally by the century's end. The magnitude of this figure and its far reaching social, political and economic implications is that it represents more than twice the size of the 1993 US GDP.

Uninhibited fusions, mergers and acquisitions are forcibly part of a totalitarian complex which, in the eyes of their ideologists fallaciously identifies "a market economy", "private property" and "democratization" with the existence of the modern corporation. There is no paradox that a Murdoch, a Gates, a Hanson and a Turner continue to babble that they are the patron saints of political pluralism. Capital has always believed in its own omnipotence, its own dogmas and pontifications. As the concrete

embodiment of the value-system of Big Capital it cannot be expected that they should become apostates to their discredited ideological credo.

The conglomerate powers that define the TNCs scope and global reach have meant that the homogenization of capital has reached the final frontier. This effectively signifies the elimination of the traditional divisions between the primary, secondary and tertiary sectors by the conglomerate spread of corporate capital. Quintessentially, it has prodigiously extended its ramifications of power, and compounded its non-accountability, already well beyond the threshold of democratic acceptability.

One of our century's biggest capitalists, Henry Ford, proclaimed that 'history is bunk'. Whatever the merits of that peculiar proposition may be it cannot be said that the TNC is an historical fluke. It already controls 80-90% of the marketing of primary and manufactured commodities; three fifths of world trade is transacted through TNC intra-firm transfers. This is but one more practice where one perceives the shabbiness of the analytical apparatus of the apologists of the corporate gulag.

Notwithstanding its pseudo claims to scientific objectivity mainstream economics shrouds the morphology of the political economy of power — as free trade market theology has always done — and its attendant inequalities, in what it incongruously terms "the international free trade system." Translated into international trade theory, the neoclassical corpus purports to describe international economic relations on the basis of comparative advantage among nations endowed with equal bargaining power. It is a model in which the reality of profits, power and exploitation is expunged; a body of doctrine, as *Economic Liberalism* portrayed, whose immutable truths allegedly transcends historical experience.

Free trade, and the nostrum of comparative advantage, has foundered on the rocks of capitalist concentration and its corollaries. Inasmuch as the TNC conglomerates own and control the modern counterpart of Portuguese wineries and British cotton textile plants, they are the winners on all fronts. Not only are they the undisputed masters of their vineyards and the wine processing factories, but they also own the ships that transport the wine, as well as the insurance companies that insure the ships and the wine. At the end of the marketing chain their power ramifies into the wholesale and distribution networks. Likewise, the TNC has bolstered its

hegemony in the wholesale and retail markets by dominating the marketing and distribution networks. A process accentuated by the oligopolistic advertising complex.[20] The advertising behemoths service overwhelmingly the world's biggest corporations — certainly not the small and medium-sized industries — and hence by manipulating consumer choice mass mega advertising indirectly facilitates the march of corporate concentration.

The TNC conglomerate is a self-reinforcing structure. Dr Walter Adams, in his testimony to a US Senate Hearings Committee, underscored the overwhelming impact of the crushing conglomerate's stranglehold.

> "A conglomerate giant is powerful, therefore, not because it has monopoly or oligopoly control over a particular market, but because its resources are diversified over many different markets. Its power . . . derives from the fact that it can outbid, outspend, and outlose a smaller firm. It occupies a position much like the millionaire poker player who, in a game of unlimited stakes, can easily bankrupt his less opulent opponents, regardless of his comparative mastery over the dizzy virtues of probability theory." [21]

Another stratagem deployed is that of "cross-subsidization", whereby the conglomerate operating over several fields shifts profits appropriated in its prospering corporate division to subsidize losses in any temporarily depressed line of business, or better still to annex any larger market shares. Business reciprocity, the banalized practice of the Top 200 leading

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20. The advertising complex has become a mandatory appendage of the Corporate Gulag in its drive to maximize market shares. Spearheaded by Japan's Dentsu and the US firms Young & Rubicam, and J. Walter Thompson, 14 agencies (by 2000 their numbers are likely to shrink to 6-8 gargantuan corporations) straddling the globe pull in billings each surpassing one billion dollars. Its power complex is seen in its global billings, which measure spending in the media outlets: magazines, radio, television, newspaper and outdoor placements. Worldwide these billings leaped from $7.4bn in 1950 to US$330bn in 1994. They are expected to approach one trillion dollars by the century's end. Cf. Frederic F.Clairmont and John Cavanagh, *Merchants of Drink: Transnational Control of World Beverages*, Penang, 1988.

21. United States Senate, 95th Congress, *Mergers and Industrial Concentration. Hearings before the Subcommittee on Anti Trust and Monopoly*. 27 May, 28 July and 2 September 1978.

corporations, which consists of making sales to and purchases from corporations, that are clients of the conglomerate, provides another mighty engine of corporate leverage.

The evolution and systemic interaction of service and non-service corporations intensifies the thrust of transnationalization and internationalization of capital. The genesis of the financial supermarket and its meteoric growth in recent years illumines the present trend. It would be difficult to improve on the portrayal of the mutations revolutionizing services (and by extension non-services) than that of the American insurance periodical *Best's Review* :

> "The financial services world is an intricate web of competing conglomerates, interlocking directorates, foreign and domestic subsidiaries and spin-off companies, all interwoven with provincial and federal legislative policies, that can present a daunting prospect for newcomers to the field."

If the fetishisms of bourgeois economics in its neoclassical garb ignore the roots, ramifications and internal logic of transnational power their own public relations propagandists have not done so, glimpsed in the candid confessions of an IBM executive:

> "A corporation is a business entity whose sole reason for existence is the earning of profits by manufacturing products for as little as possible and selling them for as much as possible. It does not matter whether the product does good or evil; what counts is that it be consumed — in ever increasing quantities. Since everything the corporation does has as its ultimate goal the creation of profit, it offers its workers no deep personal satisfaction, no feeling of contributing anything worthwhile to society, no true meaning to their activities. Go to work for a corporation and you are, through good salaries and various fringe benefits, stalled as a faceless link in the lengthening chain — completing the circle by becoming one more consumer of all that junk". [22]

Such admirable soul-searching is rare in a suffocatingly conformist corporate universe, where brazen-faced mendacity and double talk is the

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22. Quoted in Richard Barnet, *The Crisis of the Corporations*, Washington D.C.,1978.

daily agenda. Mr Maisonneuve is to be applauded for his testimony, but what must be added is that the so-called "good salaries and fringe benefits" and tenured employment belong to yesteryear. White collar workers, middle and senior executives, once upon a time the system's most privileged and vociferous opportunists, are being unceremoniously dumped. Indeed, within the corporate citadel, fear and anxiety, moral rot, labour degradation, instability and demoralization have set in on an unprecedented scale.

Free market dogmas no longer seek to reconcile its pristine faith with the annihilative power of The Top 200 mega corporations. At the onset of the 1990s, there were around 37,000 TNCs with 170,000 affiliates whose tentacles bestrode the world economy. The locus of effective power, however, lies elsewhere. In the grim image of the *Bangkok Bank Monthly Review*, "approximately 200 of them are the fearsome giants clutching world business in their grip.",[23] more accurately by their throats. Here stands the pyramid of Capital's global power, the impetuous battering-ram of the Economic Gulag.

The Top 200 referred to by the BBMR have themselves undergone a wrenching metamorphosis since 1981. This testifies to the implacable logic of motion of capital, namely, that accumulation and disaccumulation experience no respite. What, however, must not be obscured is that although many of The Top 200 are individual corporate actors, several are not. The table of The Top 200 must be studied at several levels. The Mitsubishi corporation, for example, owns and controls several of Japan's corporations that figure in The Top 200. Moreover, Mitsubishi has massive stock holdings in most leading Japanese manufacturing, banking and service corporations. The numbers presented in The Top 200 consequently underestimate the extent of corporate concentration. In plain English, it underestimates the Gulag's power.

Most corporations in The Top 200 are holding companies interconnected in their power structures through interlocking directorates and a wide assortment of corporate stratagems: pricing and output policies and cartelized deals. Obviously, this holds not only for Mitsubishi, the parent corporation.

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23. *Bangkok Bank Monthly Review*, November 1981.

TABLE 2: *Top 200 Global Corporations 1982 - 1992*[a]

COUNTRY	1982 NUMBER OF FIRMS	1982 SALES US$BN	1982 % OF TOP 200	1992 NUMBER OF FIRMS	1992 SALES US$BN	1992 % OF TOP 200
U.S.	80	1,302.5	42.8	60	1,720.1	29.3
Japan	35	657.3	21.5	54	2,095.4	35.7
France	16	182.6	6.0	23	530.2	9.0
Germany	17	207.5	6.8	21	563.0	9.6
U.K.	18	264.7	8.7	14	310.0	5.3
Switzerland	2	20.4	0.7	8	152.4	2.6
Netherlands	4	86.4	2.8	5	214.1	3.6
Italy	5	84.5	2.8	5	126.8	2.2
S. Korea	1	8.0	0.3	3	44.3	0.8
Brazil	2	27.4	0.9	2	29.8	0.5
Sweden	1	12.0	0.4	2	28.1	0.5
Spain	2	21.6	0.7	1	18.6	0.3
Canada	7	55.1	1.8	1	17.2	0.3
Belgium	1	9.2	0.3	1	12.2	0.2
Others	9	106.4	3.5	—	—	—
TOTAL	**200**	**3,045.7**	**100.0**	**200**	**5,862.2**	**100.0**
World GDP		12,600.0			21,900.0	
Top 200 as % of GDP		24.2			26.8	

Source: Computed from national accounts and company reports
a Ranked by number of firms in 1992.

The Top 200 are geographically sprinkled in a few countries: the USA(60), Japan(54), France(23), Germany(21), UK(l4) and Switzerland(8). Although world GDP contracted in the l980s, this was not so for The Top 200. These five countries, alone, engulf 180 corporations out of The Top 200 , or 90%. Such stunning geographical concentration moves in tandem with mega corporate concentration. One of the salient traits of the Top 200 has been its non-stop growth by annexations, mergers and fusions; in just barely a decade, aggregate revenues exploded from three to six trillion

dollars. It spans the entire spectrum of economic life: from manufacturing to banking; wholesaling to retailing; from large scale plantation agriculture to every conceivable service niche. Their money power has insidiously, and on a gargantuan scale, wormed into every social and political orifice. In but a single decade, their share of world GDP climbed from 24 to 27%.

What these spectacular numbers fail, however, to illuminate is the extent to which The Top 200 are inextricably coupled to the machinery of State. As the Fabian J.K. Galbraith recognizes:

> "When the modern corporation acquired power over markets, power in the community, power over belief it becomes a political instrument different in form and degree, but not in kind from the State itself." [24]

That benign liberal utterance, while displaying a commendable surface lucidity, is woefully incomplete since it parades the delusion that the TNC is "a state unto itself." In so doing it fails to probe the class roots of State power. Such an approach leads to false analytical paths. The authentic power of the separate cogs that comprise the collective Gulag (Japan's Soga Shosas and their forerunners, the Zaibatsus, offer invaluable case histories) springs not only from its output, sales and marketing control, but that its workings are related at every level with that of the State.

The mega 200 corporations that comprise the Economic Gulag do not stand in juxtaposition to the State. Each has its own specificities of power; each has its own inner contradictions; and at times the inner contradictions between the State and the mega corporation can attain violent convulsions, illustrated in the US anti-trust battle between Standard Oil and the State in 1911. Conflicts there are but they have not impaired the web of State and Capital.

Recall, too, that when TNC propagandists are touting the GATT/WTO obfuscations of the wonders of a "free multilateral trading system", always hailed with media banner headlines, they ignore that the farm and industrial subsidies of the OECD countries topped US$550 billion in 1994. This is a permanent El Dorado, not a one shot fixer. Over succeeding

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24. J.K. Galbraith, *The American Economic Review*, March 1984.

decades the sums of these cumulative handouts amounted to trillions of dollars. These numbers do not tell the whole picture. The relationship of The Gulag and the State must be seen at a specific level. Secretary Ron Brown has established what is called "a war room" in the US Commerce Department where inter-agency groups monitor and intervene in big foreign deals sought by members of the Gulag and other corporations. In 1994, the State, in the words of the Undersecretary of Commerce "lent a hand in some US$46bn worth of deals abroad".[25] Obviously such "war rooms" exist in all the advanced capitalist countries. If the sums involved in these "war chests" are added to the US$550bn of aggregate subsidies the total would probably not be far short of US$900 billion. This is king-sized managed trade on the grandest scale. Where are the pristine workings of "free markets" to be found under such conditions? What is the meaning of "free trade" in such State power configurations? To be sure, it runs counter to the free trade dream of Cobden and Bright, of Peel and Palmerston. How can one pontificate about "level playing fields" as peddled by corporate apparatchiks in the light of such blatant, massive State interventionism? "Free trade" thus turns out to be one of the biggest ideological swindles and hoaxes of all times.

The year 1995 marks the advent of the World Trade Organization. For the corporate media, and some naive, untutored spirits, headlong trade liberalization and its heavenly dispensations augur the coming of a novel and prosperous world trading order. Let us pause for a moment. Even, however, on the magic assumption that all protectionist practices are eliminated, how will this change the motivational dynamics of international capitalism and, specifically, the workings of The Top 200?

Will it decelerate the frenetic thrust to concentration and its lethal concomitants that we have examined? If the alluring promises of the gains of trade emanating from liberalization are realized who will be the beneficiaries, other than the masters and manipulators of the Gulag? How can the WTO and its hand maidens, trade liberalization cum privatization, reverse the grotesque and mounting inequalities within the world economy? What are the mechanisms and formulas by which this is to be

25. *The Washington Post*, 12 January 1995. With the approaching demise of NAFTA and the proposed US$40bn Clinton bailout package it is legitimate to ask: where are the market forces of economic liberalism?

achieved, if it can be achieved, given the prevailing class and power structures of capitalism strikingly so in its contemporary Gulagite manifestation? The answer to these queries should be apparent to all, save the free trade shamans.

Capitalism's unequal development has always been its defining characteristic over the last 200 years. This is a constant. The composition of The Top 200 league[26] reveals considerable variations. They are dissimilar in size and capital structures; their rankings change from year to year. In its halycon days, R.J. Reynolds, for example, one of the world's biggest and most rapacious tobacco conglomerates, figured prominently in The Top 200, but it was finally swallowed up by a jumbo service conglomerate, KKR, in one of the most sweeping (US$27bn) leverage buyouts in

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26. The Gulag was erected not only on the foundations of corporate aggrandizement, fusions and leverage buyouts, but also through emulation. This is corroborated in the 1903 marriage of the American Tobacco Company (ATC) and the Imperial Tobacco Company (ITC), that gave birth to the British American Tobacco Company (BAT). James Buchanan Duke (1857-1925), ATC's founder, generator of successive waves of consolidation known as the Tobacco Trust, and BAT's first chairman grasped the contagious psychology of annexationism as pioneered by Standard Oil. "If John D. Rockefeller can do what he is doing in oil, why should I not do it in tobacco?" Quoted in *The New York Times* obituary, 11 October 1925. Likewise the genesis of the big chemical trust I.G. Farben, (one of Hitler's vital financial pillars that provided the major industrial underpinnings of Hitlerian genocide), was created on the 25 December 1925 by the merger of chemical giants that included BASF, Bayer, Hoechst. At a single merger stroke the world's biggest chemical industry was born, and one that was to have far-reaching implications. on the politics and economics of the inter-war years. Cf. Joseph Borkin, *The Crime and Punishment of I.G.Farben*, New York 1978. One of its immediate consequences was that it was emulated instantaneously by the merger of several large British chemical firms under the aegis of the Imperial Chemical Industries (ICI) in 1926, and two years later by much the same merger policy of Rhone Poulenc in France under the auspices of the French government. See Frederic F.Clairmont and John Cavanagh, *The World in their Web: The Dynamics of Textile Multinationals*, London 1981.

27. The 1960s added new dimensions to TNCs global reach. Whereas there were only two or three giant (product specialized) corporations with assets of US$500 in 1906, in the ensuing decades, size and diversification grew apace. By 1970, the two largest industrial corporations alone (Exxon and General Motors) had sales of nearly US$40bn, which is about as great (in constant dollars) as those of the over 200,000 manufacturing establishments operating in 1899. See the testimony of Prof. Willard Mueller. United States Senate, *The Role of Giant Corporations in the American and World Economies*. Hearings before the subcommittee on Small Business, 92nd Congress, Washington D.C., 12 November 1971. It suffices merely to compare the size of the two largest US Gulagites in 1971 and 1994.

corporate history. Consequently, it was shovelled out of the big league. From year to year, from decade to decade, the altered countenance of The Top 200 as a whole (and of course the variations among them) is singularly the most accurate barometer for gauging the trajectories of the Gulag.

Imperialism is international capitalism writ large. Changes, therefore, in The Top 200[27] provide a credible map of the corporate war for unceasingly bigger and bigger market shares and the drive to economic war inherent in imperialism. Not surprisingly the US Gulag slipped from 80 to 60, as against Japan that rocketed from 35 to 54. Likewise, the slippage of a defunct imperial power as the UK, is no less revelatory of the evolution of global capital. The antagonisms generated by the mutations within The Top 200 must ineluctably spill over into the new millennium with even more calamitous repercussions.

In contrast to the shrinkage of the UK and France, Germany has gouged out a larger share. Also perceptible is that even such a geo-demographic dwarf as Switzerland, whose finance capitalists have always flourished under the political umbrella of US, German and British imperialism, is a conspicuous segment of the Economic Gulag. That tiny alpine nation in the heart of Central Europe has reached a level of capital concentration surpassing South Africa, South Korea, Sweden; it has eight of The Top 200 TNCs — a fourfold boost in a decade. An ascendancy that reveals the iron grip of Swiss mega capital in international markets, manifestly so in Asia.

Among Third World nations, only South Korea (its designation as Third World by the UN statistical department is ludicrous) and Brazil have intruded into the ranks of The Top 200, but these represent barely 1% of sales. Of central importance are the mounting disparities within The Top 200. Measured by corporate profitability, The Top 10 (out of The Top 200) each earned yearly over US$2bn in profits. Out of aggregate profits of US$73bn, The Top 10 (5%) amassed 48% of total profits. Although these numbers are indispensable to comprehend the morphology of capital, they understate the muscled leverage of Gulag power. Six privately owned mega corporations (i.e. their stocks are not quoted on the New York Stock Exchange) are not included in The Top 200, although their revenues could easily propel them into The Top 200 league: Cargill, Koch, UPS, Continental Grain, Mars, and the investment banking and securities firm of Goldman Sachs.

Penetration of new markets, the frenzied pace of deregulation and information technology have immensely bolstered concentration in The Top 200. But far more so in The Top 50. These are ideally positioned to maximize economies of scale on the world market. Strikingly so is the case of Boeing, the US Big Three auto producers, as well as the Korean, Japanese auto, electronic and shipbuilding titans.

Five mega TNCs annexed over half of the world market in several sectors: software and electronic components, aerospace and electrical equipment, etc. In fast food, two; in soft drinks, tobacco and beverage sectors, five. The arms industry is a special case. It is not propelled by market forces but through executive marketing power epitomized by the personal big stick methods, cajoling and sales pitch of a Thatcher, Kohl, Reagan, Bush and Clinton. The US Defense Department lavished hundreds of millions of dollars in bribes and kickbacks to buyers to enhance conquests of foreign markets. These sums are independent of those of the arms corporations themselves. The flow of such "juice", to use the Pentagon's picturesque imagery, relates not only to the United States, but to all arms producing countries.

With the crumbling of the Soviet Union and East Europe, the US became the world's major salesman of death. Export credit guarantees and financing facilities, latched to the interminable streams of "juice", underpin the industry. According to the US Congressional Research Service, the share of the US in total world arms trade rose from 10% to 73% from 1986 to 1993; that of the ex-Soviet Union dived from 49% to 8%. Saudi Arabia, Kuwait and the Middle East potentates, with their police state regimes and bounteous cash hoards, exemplifies their importance in view of what the Pentagon calls "the loss" of the Iranian and Iraqi markets. The yearly three billion dollars in "aid" that Israel receives from the US (supplemented by two billion dollars from worldwide Zionist funds) are major auxiliaries for propping up the US military industrial complex, and perpetuating the US stranglehold in the Middle East. The same applies to Egypt, the second largest US "aid" donor reflecting its hegemonic relationship with that Middle East banana republic.

Among the several bogus claims of its salesmen, none is so resoundingly foolish as the contention that the TNC is a job generator. This propaganda must be evaluated within the drift of labour markets as a whole, and not only in the Gulag's labour exterminatory practices. What

the damming evidence to the contrary delineates is that Big Gulag, far from spawning jobs, is a job liquidator on a grand scale, unparalleled in the history of industrial capitalism. Only a minute fraction of all industrial jobs were generated within the TNC manufacturing sector, a job sector that is being rapidly degutted. Over the past decade, the world's Top 500 corporations shed over 400,000 workers yearly. There are no signs of a turning point as any casual perusal of the financial press would confirm. Job exterminism continues to move in concert with TNC expansionism.

The "golden decade" of capital in the 20th century lasted about two decades: 1955-1975. For whom it was "golden" is another story. Certainly, there were sporadic and uneven gains for certain minority strata within the working class during these two decades. Striking, however, was the disproportionate gains between labour and capital. One of the essential by-products of the breakdown process are the momentous changes in the composition of the work force, marked by its enhanced organizational fragmentation and political anaemia.

Conventional fixed term employment, in manufacturing and services, is being swiftly replaced by part-time, low paid, non-unionized labour. In the USA, union labour in manufacturing fell from 42% in 1950 to less than 14 % in 1994. For the capitalist, such strategies yield lush profits: labour costs cease to be a part of fixed personnel charges; vacations and health insurance costs are liquidated. Labour can be, and is, hired and fired at will. This is tantamount to a return with a vengeance to the Dickensian world of the Lancashire mill owner whose overriding consideration was: " In my mill I can damn well do with my labourers what I want. My word is law with no questions asked." In all OECD economies such sordid modes of labour exterminism are deep and pervasive.

Liquidation of permanent employees not only introduces "flexibility" and curbs costs; but no less crucial is that it provides for a higher degree of socio-political control over the work force. Evidence of this changing labour configuration is the coexistence of a rising number of highly vulnerable part-time workers and a slashing of tenured employees. Such labour fragmentation is coupled to keeping wages well below gains in productivity, tremendously amplified over the last 15 years. Gains in labour productivity have never been transferred from capitalists to workers in a system ruled by private ownership of resources, and exclusively geared to the private appropriation of the actual economic surplus. Nor

can it be otherwise as the system is not blueprinted to meet the imperatives of social justice.

Fidel Ramos, Philippine strongman, delivered the message unequivocally in an address to foreign and domestic capitalists: "I don't want to hear talk of wages and productivity gains going hand in hand. My government will never support such policies. What makes sense is that wage costs must be kept in check. Grasp this point well for it is the price of your survival, and means for boosting our international competitive capabilities." That from the top politico of a poverty-stricken, class-fissured nation, with one of the world's lowest wage levels. In that succinct statement, nonetheless, we have the most limpid formulation of class war. Translated into the language of Fordism it means that the capitalist must obtain a larger and larger unit of output with a smaller and smaller unit of input at lower and lower wages. What Ramos, as a comprador politico, advocates is precisely what has occurred in the OECD countries over the last 15 years, and what is transpiring over vast expanses of the Third World at present.

What is productivity? Productivity, defined as unit output per worker, is predicated on how much can be produced by the capitalist with a given unit of labour. Productivity is thus the rate of exploitation of labour and hence one of the systemic outgrowths of the workings of capital. The push to escalate productivity means extracting a greater and greater actual economic surplus, that is net profit, from a smaller and smaller defenceless work force, employed at stagnant or falling real wages. Exhortations to boost productivity can never be a panacea to counteract economic crisis. The organic causes of capitalism's chronic afflictions run far deeper. Who are productivity's gainers and losers? What are the class distribution and proportions of these gains and losses? Boosting productivity under capitalism is one major manifestation of the class struggle, as the great Ricardo in his illustrious chapter on machinery recognized.

The classic and oldest way of exploiting labour is lengthening the working day; the second, without lengthening the working day, is speeding up the work tempo; the third, introduction of labour-saving techniques with automation and robotics being its optimal consummation. All three are interdependent as Frederick Winslow Taylor, the father of rationalization, demonstrated at the century's turn. Mutations in the labour process are central to the dynamics of capitalist exploitation. In her revealing

analysis of labour time in the USA, Juliet Schor of Harvard university indicated that the average US worker in 1987 laboured 163 hours longer per year than in 1969. In less than two decades a full month of labour per year had been added, matched by a similar deduction of leisure time.

The world has felt the brunt of Japan's conquests of world markets. Certainly industrial organization has played its part. More primordial has been the non-stop, savage exploitation of the Japanese worker. There never was any economic "miracle" in Japan to begin with. Rather what the world saw, or often failed to see, is one of the supreme exploitative orgies of the twentieth century. In 1987, Japan's industrial workers sweated out 2,168 hours a year, compared to 1,949 for US workers. The bogus 'miracle', extolled year after year in the lavish encomiums of the big-money media, is explicable in terms of blood, sweat and raw muscle extracted by the nation's capitalists.

Summing up the adverse impact of tumbling real wages in the US economy, Juliet Schor writes:

> "In return for a 1970s standard of living, employers are now demanding far more hours. For the production and non-supervisory employees, who make up 80% of the labour force, these demands have been substantial. According to our calculations, just to reach their 1973 standard of living, they must work 245 hours more, or six-plus extra weeks a year." [28]

It is palpable to whom the gains of productivity have redounded. "The economy is the problem causing the most profound discontent", laments *The New York Times* : "Real per capita income has been stagnant or declining for years. The rich have grown dramatically richer, while the middle class struggles to keep afloat." [29] This is an incontrovertible utterance but a banality nonetheless. Let it be recognized that such righteous indignation is not the spouting of a conscious-stricken radical, but springs from one of the paramount corporate media mouthpieces. Indeed, one of the most ferocious custodians of corporate capital.

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28. Juliet Schor, *The Overworked American: The Unexpected Decline of Leisure Time*, New York, 1993. An outstanding work in US labour economics.

29. *The New York Times*, 11 November 1994.

Frequently obfuscated in the debate on unemployment and productivity, is that when total output is stationary any rise in labour productivity boosts unemployment. The proposition that "boosting productivity is the key to recovery" as Clinton insipidly babbles, is merely one more measure of his ignorance of capitalist reality that he shares amply with the G-7 junta.[30] World industrial capacity is around 75%. Failure to drive the engine at full throttle cannot be imputable to a decline in worker productivity. The supreme challenge facing capitalism and capitalists is not boosting productivity, but chronic overproduction. Here the system's contradiction is portrayed in its most lurid light.

One of the by-products of corporate restructuring has been mass, sustained unemployment and the nose dive in real wages. Is it surprising in this setting that this had led everywhere to a precipitous fall in labour's share of the gross domestic product, and a parallel rise in the share of profits in all OECD economies without exception? The battering of labour's ranks and defences by Capital's heavy artillery has yielded a giant profit bonanza. In the short and medium term that will, however, and indeed already has proved self-destructive.

Do the corporate architects of these rationalization strategies believe that labour exterminism on such a grim and remorseless scale can tackle overproduction, or under-consumption, the flip side of the coin? Evidence points to one remorseless conclusion: the Gulag's directives on labour exterminism as the final solution will continue to shrink the market drastically, thereby slashing individual and collective consumption. In turn, this will ultimately and adversely repercuss on the profit rate.

A capitalist's profit horizon is myopic. It is confined to short term calculations that can never be harmonized with long-term social needs of the community and the nation as a whole. It is this overpowering law of

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30. Richard Tawney, the distinguished British economic historian of the period between the two wars, gave a masterly description and analysis of several of the myths of economic liberalism. Preeminently scathing was his comment on productivity as a cult word. His short essay, his first major work and one of the classics of 20th century political economy, deserves to be studied because of its relevance to some of the major debates of our times. Its arguments presented with such grace and elegance have not lost their strengths and relevance. "When they desire to place the economic life on a better foundation they repeat, like parrots, the word productivity . . . it is precisely in the century which has seen the greatest increase in productivity since the fall of the Roman Empire that economic discontent has been the most acute." *The Acquisitive Society*, London, 1921.

capital that is being grasped in colonized East Europe and Russia, now that free market institutionalized imbecility has shed its mythical allurements. The beginnings of the reversal of some existing and planned large privatizations in East Europe, Russia and South Africa are portents of vast social and political changes in the making.

Consumption, which represents 60-65% of GDP in the OECD economies, has been trimmed by soaring joblessness, creeping indebtedness and tumbling real wages. Likewise, corporate investment is hamstrung not by a shortage of capital (there is no such thing) but by the endemic prevalence of unused industrial capacity. In what manufacturing sectors should capitalists invest if the pre-conditions for such profitable investment are singularly absent? And who is going to buy their goods if they are produced? Superimposed on these woes, is that spending by the capitalist State is also hobbled by plummeting revenues, and by the uninhibited implosion of the national debt.

Job liquidation is perceived as the solution for lifting the bottom line. "Wall Street does not worry much about the long run", noted one sensitive soul in *The Washington Post* in July 1994. "It is the price of the stock tomorrow that concerns it, and its values are now adopted by Corporate America. It has become a word to mask greed — but the stench of greed not only goes unrebuked in Washington, where Democrats have joined Republicans in fealty to those who pay their campaign bills, but it is also applauded."

The cult of violence, and unabashed State terrorism, is the defining centrality of US power since the republic's birth. What has shifted in the intervening centuries, however, is the sheer magnitude of corporate capital, and its boundless embezzlements. "Greed is good", pontificated Ivan Boesky, convicted felon and one of Wall Street's boldest embezzlers, to the deafening applause of staff and students of California university's School of Business Administration. These are not the rantings of a peculiarly money driven maniacal crook; it is the exalted world view and inspirational coda of the Kingdom of Capital and their applauding acolytes; it is symptomatic of the pathological logic of accumulation driven to its apoplectic extremity. In the incarnation of The Top 200 the Corporate Gulag has become a socially destructive killer.

Unemployment and social distress world wide have attained levels surpassing the Great Crash, and capitalism once again is powerless to

redress the cataclysm of its own making. The corporate media does not see it this way. Rather readers are regaled with fairy tales celebrating the end of the recession. But what are the constituents and composition of this 'end'? What is the social content of the "new" prosperity ? How long will it endure before petering out, and with what consequences?

Indeed, what capitalism is experiencing, discarding for the moment the fantasies and muddled thinking of the corporate mythologists, is that the world economy, and specifically the US, is in the weakest cyclical "recovery" since 1945. "Recoveries" will become even shakier as inter-imperialist rivalries and overproduction further enfeebles the system. Overall aggregates of national income conceal these ominous trends.

To be sure, corporate profits are hitting (1994) all time highs, but that is not true of the battered wages of labour. Jobless growth has moved hand-in-hand with deskilling, decay of job quality and low pay. Unemployment, the breakneck quest for maximum profits irrespective of social agony, the frenzied gusto for "competitiveness" are the constants of capitalism at all phases of its transition. Writing in November 1886, Frederick Engels noted with the incisive insight of the master analyst he always was:

> "While the productive power increases in a geometric ratio, the extension of markets proceeds at best in an arithmetic ratio. The decennial cycle of stagnation, prosperity, overproduction and crisis, ever recurrent from 1825 to 1867, seems to have run its course; but only to land in the slough of. . . a permanent and chronic depression. The sighed-for-period of prosperity will not come; as often as we seem to perceive its heralding symptoms, so often do they again vanish into air. Meanwhile, each succeeding winter brings up afresh the great question: `what do we do with the unemployed'?; but while the number of the unemployed keeps swelling from year to year, there is nobody to answer that question; and we can almost calculate the moment when the unemployed, losing patience, will take their fate into their own hands." [31]

That final sentence has not lost its shattering poignancy as the winter of discontent of our times gathers pace. Corporate capital, in the wake of an anti-fascist victory, was compelled to pay its hypocritical deference to

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31. See his preface to the English edition of *Capital: A Critique of Political Economy*, (1886) Vol. 1, London 1976.

the goals of "full employment" incorporated in national legislation. No more. Big Capital and their political hirelings have damned and consigned such "full employment" dreams and hopes to history's rubbish heap. Just as Big Capital has junked political pluralism that no longer conforms to the exigencies of profit and corporate aggrandizement, so it blatantly junks its earlier stance on employment, respect of the rights of the world of labour and minimum wage legislation.

Are not the interconnected triad of mass unemployment, spiralling inequalities, and boundless economic concentration anathema to the practice of "representative democracy", and the crassest violations of "human rights"? Clinton, that floundering buffoon, never ceases to tout his torpidly interminable homilies on "the rule of law" and to perform his sanctimonious public relations stunts about "human rights violations" in the Third World. His vacuous moralizings are nothing more than the desperate ejaculations and refurbished rationalizations of a hapless, beleaguered huckster scrambling to preserve the rags and tatters of his embattled presidency. He may be oblivious to what is happening in his own domestic backyard, but the victims of capitalism's unremitting catastrophes cannot be expected to follow suit.

In October 1994, Second Harvest, the largest US Food Bank, reported that one in ten Americans or about 26 million people, rely on charitable food agencies to eat. Most of these are hounded families, of all colours, bulldozed into the slime of the swelling legions of the destitute, the hungry and the homeless. Actual numbers of course are much larger. According to US Labour Department data, more than 40 million Americans are living below the poverty line, an understated figure that will inevitably rise.

These ghastly numbers graphically confirm once again the whopping class polarization of American society. This is the nemesis of the class struggle, symptomatic of the vileness and iniquity of the social order meticulously engineered to ensure the degradation of its working peoples. A condition which the exploited labour of tens of millions becomes the pre-condition for the accumulation of wealth of an exiguous and exploitative minority. The towering concentration of hyper-privileged bourgeois wealth has savaged the folklore of the "American dream" — a dream that never was.

The US is the most inegalitarian developed capitalist economy in the world; it is becoming even more so and at a swifter rate than any other.

Data of the Federal Reserve Board from 1989-1995, indicate that 1% of US households — with net worth of at least US$2.3 million each — owns nearly 40% of the nation's wealth. Further down the scale, the top 20% of Americans — households worth US$180,000 or more — have more than 80% of US wealth. Where are the alluring promises of capitalism's anointed high priests of autocratic economic orthodoxy given the system's current pathological convulsions, which manifest not a glimmer of mitigation?

Obviously this untenable and wobbly social order calls for the mandatory and unconditional redistribution of economic and political power. Such aspirations, pressing as they are, are not momentarily within humanity's achievable grasp. They belong to other times and other political agendas, as yet unborn. Even if they were implementable such a momentous catharsis, (and this applies not only to a congealed, bonehead conservative society as the USA) would ineluctably unleash the savage whiplash of the hyper class privileged whose teeth are long, whose class hatreds are longer still.

As ingenious and duplicitous as Stalin's 1936 "most democratic constitution in the world", the US political bill of rights, omitting the hosannas and fancy rhetorical phrasing, is a ruling class bag of bones that it is convenient to rattle at the propitious moment. It has been metamorphosed into the most banalized big stick of ideological engineering. Authentic "political rights", and not the crude, vulgar political baloney and masquerade to which the electorate has been reduced at various intervals of time, should never be an end itself. Honest electoralism must be matched by other corollaries so singularly absent in the US socio-political gulag.

Where is the *Economic Bill of Rights* advanced by Franklin Delano Roosevelt in his last State of Union Message to the US Congress? It was bulldozed and shovelled into the slaughter house of ostensibly noble well-intentioned goals that are wholly incompatible with the irrepressible avalanche of capitalist repression and exploitation. Stripping the empty doubletalk Noam Chomsky reaches into the heart of the matter: "The chairman of the board will always tell you that he spends his every waking hour labouring so that people will get the best possible products at the cheapest possible price and work in the best possible conditions. But it is an institutional fact, independent of who the chairman of the board is, that he would be better trying to maximize profit and market share, and if he does not do that he is not going to be chairman of the

board anymore. If he were ever to succumb to the delusions that he expresses he would be out."

What Clinton and other leading G-7 political derelicts should ask is: how do they reconcile these appalling indices of hunger, deprivation and mass impoverishment with their ostensibly well intentioned but crapulous homilies on "human rights"? The truth is that there is no moral compunction on their part to reconcile the irreconcilable; which is also the stance of the corporate gulag. Peddling their platitudes becomes a substitute for reasoned argument and a search for honest solutions. Their sole quest is the retention of political power for the betterment of the class that hires them. Human rights, those noble words, thus becomes transmogrified into a shabby alibi to dissemble their crimes, callousness, and bankruptcy. But the alibis and the lie machine does not perform its master's bidding in all places and at all times. Let us cast a glance at one of the vital documentary landmarks of the 20th century: the 1948 Universal Declaration of Human Rights.

"Everyone", says Article 23, "has the right to work, to just and favourable conditions of work, and to protection against unemployment with remuneration ensuring for himself and his family an existence worthy of human dignity, supplemented if necessary by other means of social protection." And "everyone has the right to form and join trade unions for protection of his interests." "Everyone", declares Article 25, "has the right to a standard of living adequate for the health and well being of himself and his family, including food, clothing, housing and medical care and necessary social services, and the right to . . . secure that in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood."

Stemming from the mainsprings of the Corporate Gulag, and the international *modus operandi* of capitalism in all its myriad guises, this is a subversive document which, although it cannot be burnt as McCarthy's and Hitler's unwanted books, must be perverted and circumvented. This is the goal that capitalism has set itself as the dawn of the onrushing millennium approaches. In essence, this is the story of *The Rise and Fall of Economic Liberalism* and its multitude of multiplying maledictions.

Frederic F. Clairmont
Paris and Geneva, 1995.

2

Genesis of Liberalism

To what extent was Economic Liberalism, that is the embryonic gulag, moulded by the policies of Great Britain in the last quarter of the eighteenth century and the immediate post-Napoleonic world? We shall attempt to place it against its background of policy pronouncements and the major movements and trends in British industrialisation in the crucial period following the Napoleonic wars, and by so doing we shall be better placed to assess the motive force which led certain then less developed countries, forging their national unity, to repudiate the more doctrinaire facets of integral liberalism as formulated by British theorists and their parliamentary disciples.

The historical approach has relevance for our time because it reveals the gap between the formulation of doctrine in a given social framework and the effects of transplanting this doctrine to a differently evolved social milieu. Moreover, we are of the conviction that the present problems of the underdeveloped areas if they are to be understood and tackled, must be considered first and foremost as historical phenomena. The present must be seen in relation to the past from which it has arisen and the future which it will become, and this necessarily involves approaching it from the point of view of a general theory of historical development.[32]

We shall describe how economic liberalism mirrored the imperatives of the new industrialism and how its doctrinal flow was regulated by the needs of the newly emergent bourgeoisie. The expansive effect of liberal ideology on the nineteenth century British economy was dazzling. Nevertheless economic liberalism never found a sympathetic audience in the thirteen former American colonies or in checkerboard Germany, nor among Asian intellectuals in the course of the nineteenth century and after.

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32. The construction of econometric models for the less developed countris are amusing pastimes. Their problems are essentially historical and the historical approach to growth is fruitful in the sense that it reveals the perils of broad generalisation not rooted in experience.

The interplay of historical fact to doctrinal formulation, and *vice versa* is not without contemporary relevance, at a time when the problems of economic growth and industrialisation bear upon the less developed communities with pressing urgency.

Emergence of Prometheus

The velocity with which British industrialism extended its all-embracing tentacles was regarded by Babington Macaulay as miraculous. Through the industrial revolution[33] in the eighteenth century, the stage was set for the upsurge of British capitalism destined simultaneously to effect a profound social transformation and remodel the economic geography of the island economy.

The cotton industry became the Prometheus of British industry and the pioneer of industrialisation. It was Porter's belief that the "rise and progress of cotton manufacture in Great Britain forms perhaps the most extraordinary chapter in the annals of British trade."[34] Cotton, in fact, happened to be an indispensable ingredient in the fabrication of classical political economy.

It was "raising men like mushrooms."[35] Oldham in 1760 was a village of 4,000 inhabitants; in 1801 it had 20,000. In 1753, Bolton had a single rough, ill-paved street; in 1801 the population was 17,000.[36] Cotton weavers unrepresented in George IV's coronation procession in 1760 were the most

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33. It was Arnold Toynbee in his *Lectures on the Industiral Revolution in England* (London, 1884), that brought the concept into general use. *Cf.* William Rappard, *La Révolution industrielle et les origines de la protection legale du travail en Suisse*, Geneva, 1912 p. 4, credits Karl Marx as being its originator. Paul Mantoux, *The Industrial Revolution in the Eighteenth Century* (Revised second edition, London, 1927) attributes the expression to Engels, *Die Lage der arbeitenden Klasse in England*, 1845. There is evidence, however, to suggest that the notion is French in origin. *Cf.* Anna Bezanson, "Early Use of the Term Industrial Revolution," *Quarterly Journal of Economics*, Vol. xxxvi, 1922.

34. G.R. Porter, *Progress of a Nation* (Hirst edition, London, 1912). The first edition of this important work appeared in 1836.

35. Paul Mantoux, *op. cit.*, p. 368. The phrase is Arthur Young's

36. The same was true of Rochdale, Bury Blackburn, Preston, Wigan, Stockport, Ashton, and Stalybridge. "Everywhere on this poor soil, the same fruitful seeds gave a harvest of cities." E. Butterworth, *History of Oldham*, p. 117.

conspicuous feature of the coronation procession in 1820.[37] The crowning of the new sovereign was, in a larger sense, the crowning of King Cotton.

Watt's financial backer Matthew Boulton picturesquely stated that the advent of the steam engine had made the Kingdom "steam mill mad."[38] It was the basic innovation on which industrialisation hinged.[39]

A contemporary observer, himself a textile capitalist, commenting on the sweeping demographic changes[40] that shadowed the industrial revolution wrote: "The history of South Lancashire is experiencing one of the great miracles of our time and no one speaks of it though these miracles have been created by the cotton industry."[41]

The meteoric rise of the cotton industry was matched by the rise, although less spectacular, of the metallurgical industries without which industrialisation would have been impossible. Production of pig-iron increased tenfold between 1788 and 1830. There were three times as many furnaces in operation in 1820 as in 1788. Iron shipped through the Glamorganshire and Monmouthshire Canals' increased two-and-a-half times between 1820 and 1833; from Cyfartha the export doubled and from Dowlais it trebled during the same period. "Britain after Waterloo," writes Clapham, "clanged with iron like a smithy."[42]

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37. Butterworth, *ibid.*, p. 117

38. Mantoux, *op. cit.*, p. 340. "Bolton to Watt, June 1781."

39. H.W. Dickinson and R. Jenkins, *James Watt and the Steam Engine* New York, 1921), and the later study by H.W. Dickinson, *James Watt. Craftsman and Engineer*, London, 1936. B. Willey, *The Eighteenth Century Background*, London, 1940. A. Wolf, *A History of Science, Technology and Philosophy in the Eighteenth Century*, London, 1952.

40. A. Redford, *Labour Migration in England*, 1800-1850, Manchester 1926 and the pioneer work of G.T. Griffith, *Population Problems of the Age of Malthus*, Cambridge University Press, 1926. T.H. Marshall. "The Population Problem during the Industrial Revolution," *Economic History Supplement to the Economic Journal*, January 1929. T. McKeown and R.G. Brown, "Medical Evidence Relating to English Population Changes in the Eighteenth Century." *Population Studies*, ix, No. 2, November 1955. H.J. Habakkuk. "English Population in the Eighteenth Century," *Economic History Review*, Vol. vi, No. 2. See also Mantoux, *op. cit.*, Part III, Chapter 1

41. F. Engels, *Die Lage der arbeitenden Klasse in England* (1844), Berlin 1952, pp. 39-40.

42. J.H. Clapham, "The Industrial Revolution and the Colonies, 1783-1822," *Cambridge History of the British Empire*, Vol. II, p. 233.

British industrial power was rapidly making the world her footstool, and the England of the post-Napoleonic world became a unique historical phenomenon. The eyes of Lancashire, Yorkshire, Warwickshire, Paisley and Glasgow ceased to be riveted on the national horizon and the vision of the industrial leviathan now scanned the universe.

Britain had become a colossus enjoying a technological and political predominance such as no country, before or since, has ever enjoyed. France lay defeated. The Austro-Hungarian Empire's dynastic heritage was being politically whittled away by the rise of a liberal bourgeoisie and more effectively by Prussia; Germany was nothing more than a geographical expression, as was Italy, divided between the Hapsburgs, the Kingdom of Sardinia, Naples and the Holy See. Pioneer maritime powers and empire builders of an earlier period, Spain and Holland, were now *hors concours* — with the immense territories of the former now clamouring for national independence. Portugal still clung to its enclaves in Asia, but its conquests of the two preceding centuries were now archaic memories.

The young American republic, nothing more than a thin strip of Atlantic seaboard, composed of a conglomerate of bickering states, half slave, half free, with a vast unexplored hinterland stretching to the warm waters of the Pacific peopled by hostile Redmen, was struggling to attain a fullness of national unity initiated by the first revolution. This unity was to be reforged in the fires of the second social revolution (1861-1865) ninety years later.

But the British colossus was a vigorous reality — a colossus draped in cotton with feet of iron and steel and coal with arms thrusting avidly outwards. "It would not be worth my while to make for three countries only," wrote Matthew Boulton of his steam engine in 1769, "but I find it very well worth my while to make for all the world[43]. Such was the

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43. A. Redford, *Economic Histroy, op. cit.*, p. 45. Also the important work of J. Lord, *Capital and Steam Power*, 1923. On the partnership of James Watt and Matthew Boulton, *cf.* Eric Roll, *An Early Experiment in Industrial Organization: Being a History of the Firm of Boulton and Watt*, 1775-1805, London, 1930. The partnership between Boulton and Watt brought about a union of the bourgeois and the scientist which may be taken as a symbolic of the new alliance. A year later, the American Declaration of Independence (1776) ended the exploitation of one of the most important colonial areas and withdrew a powerful prop from the old colonial system on which mercantilist thought was built. In the same year was published the *Wealth of Nations*, and the fate of what remained of medieval society was sealed a few years later by the French Revolution of 1789.

portent of things to come, the herald of the new industrial spring, the seed of the *Weltanschauung* that was to blossom in the body of liberal doctrine in the years and decades ahead.

British capitalism was thinking consciously in world terms. "Between 1815 and 1830," writes Leland Jenks," at least fifty million pounds had been invested more or less permanently in the securities of the most stable European governments, more than twenty millions had been invested in one form or the other in Latin America, and five or six millions had very quietly found their way to the United States."[44] The ebullient forces of nascent capitalism — its dynamism, Promethean potency and universality caught Byron's perspicacious eye.

> Who hold the balance of the world? Who reign
> Over Congress, whether royalist or liberal?
> Who rouse the shirtless patriots of Spain?
> (That make old Europe's journals "squeak and gibber" all)
> Who keep the World, both old and new, in pain
> Or pleasure? Who make politics run glibber all?
> The shade of Buonaparte's noble daring?
> Jew Rothschild and his fellow-Christian Baring.[45]

The national liberation struggles in Latin America opened new vistas to British enterprise, trade and capital exports. "The nail is driven," wrote Foreign Secretary Canning in ecstasy, "Spanish America is free, and if we do not mismanage our affairs sadly she is English."[46]

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44. L. Jenks, *The Migration of British Capital* to 1875, London 1927, p. 64. This is a very rough estimate. It may have been more, but not less. According to estimates of *The Times* of 14 October, 1824, Britain had lent £47,815,000 to all foreign governments up to that time. Marshall's *Digest of All Accounts* presents a balance-sheet in which foreign loans to Europe between 1817 and 1830 are reckoned at £81,000,000. Jenk's estimate is much lower, and does not exceed £60,000.000 at any time during the twenties. The larger part of this investment went into railway securities and mining companies.

45. *Don Juan*, Canto XII

46. *The Cambridge History of British Foreign Policy*, Cambridge University Press, 1923, Vol. II, p. 74. Canning to Granville, 17 December 1824. *Cf.* the monograph of Eric Williams, *Capitalism and Slavery*, University of North Carolina Press, 1944.

In a significant passage Sismondi grasped the profound implications of these post-war international investment trends.[47]

Production, distribution and exchange of goods and services had received the benediction of a theologically sanctioned truth and it was impious to question it. It was Huskisson's conviction that "economic (i.e. liberal) principles" were as axiomatic as euclidean geometry, and repudiation of its logos unambiguously implied that you were either a fool or a rogue or both.

To the Manchester capitalist and parliamentarian Sir John Bowring, "Jesus Christ is free trade, free trade is Jesus Christ."[48] When a select parliamentary committee asked a certain Mr. Simmons, an official of the East India Company, why the company after ceasing to export goods to India were continuing to do so in the case of China, the loyal servant replied: "I think I may affirm that it was considered a moral obligation."[49] Trade by "moral obligation" was anathema to the new liberal order.

The international division of labour, it was seriously argued, was part of providential dispensation that transformed Britain's economy into an industrial power, and it was equally providential that other countries

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47. J.C.L. Simonde de Sismondi, *Nouveaux Principes d'Economie Politique ou de la Richesse dans ses Rapports avec la Population.* The first edition appeared in 1819, the second in 1827. Geneve, 1951, Vol. I, pp. 277-9. Towards the end of the nineteenth century Tugan-Baranovsky, investigating capital investment problems 1820-1914, had drawn, after rigorous sifting of the evidence, conclusions similar to those of Sismondi. *Cf. Les Crises Industrielles en Angleterre,* Paris, 1911. Also W. Smart, *Economic Annals of the Nineteenth Century* 1821-1830, London, 1917, p. 187

48. In K. Marx, *La Misère de la Philosophie, Réponse à la Philosophie de la Misère de M. Proudhon,* (1846), Paris, 1947, p. 152. Unfortunately I have not been able to find this statement of Bowring either in *Hansard* or in Bowring's writings or papers. Bowring-a textile capitalist, a deeply religious man and a composer of hymns, an ardent enemy of the Zollverein, a Governor of Hong Kong and a pillar of the established order-is credited by Leslie Stephens with having written "the worst biography in the language"(of Jeremy Bentham). *Cf.* William Harris, *Caroline Fox,* p. 202; *Dictionary of National Biography* 1980; *Autobiographical Recollections,* London, 1877, Bowring was one of the co-founders of the anti-corn law league.

49. Select *Committee on East India Affairs,* 1832, Q. 1973, J. Clapham, Vol. I, p. 487

should be satellite raw material producers. Although the mind boggles at this piece of sophistry, it was one that was echoed from Parliament and pulpit, and inspired a good deal of the voluminous mass of liberal economic legislation between 1816 and 1856.

According to this view Great Britain "by her very nature and by her talents" was destined to export manufactured products in exchange for foodstuffs and primary products. In the words of an anonymous publicist in 1832:

> It is clearly seen that to our beloved land Great Britain has been assigned the high mission of manufacturing for her sister nations. Our kin beyond the seas shall send to us in our ships their cotton from the Mississippi valley. India shall contribute its jute, Russia its hemp and flax, and ironstone for our factories and workshops, our skilled mechanics and artificers the necessary machinery to weave these materials into fine cloth for the nations; all shall be fashioned by us and made fit for men. Our ships, which reach us laden with raw materials, shall return to all parts of the earth laden. This exchange of raw materials for finished products under the decrees of nature makes each nation the servant of the other and proclaims the brotherhood of man. Peace and goodwill shall reign upon the earth, one nation after another must follow our example and free exchange of commodities shall everywhere prevail. Their ports shall open wide as ours are open for their raw materials.[50]

Such was the state of progressive and enlightened opinion; it was not the exclusive property of a clamorous minority of political economists toiling away in ivory towers. Indeed, it was the confirmed conviction[51] of that dynamic class — "the industrious middle class," to use Cobden's pet description of his class, now in the course of seizing political and state power and already dominant in banking and commerce.

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50. *Cf.* L.C.A. Knowles, *The Industrial and Commercial Revolutions in Britain during the Nineteenth Century*, London, 1921, p. 128.

51. *Cf. The Political Writings of Richard Cobden*, London, 1867, Vol. II, pp. 198-9 and the role he assigns to Western Russia and the Ukraine in the international division of labour.

Economic liberalism reflected not only the exuberant strivings of an ascendant class,[52] but the historical fact that for a good part of the century the competitive status of the British economy well allowed her the privilege of implementing as well as advocating liberal policies. Herein lies the crucial difference between the liberal policies of Gladstonian England and the post-1945 United States with its bogus claim to be the *legatus apostolicus* of the now shrunken "liberal" world.

For post-Napoleonic British liberal theorists, publicists and statesmen, the pursuit of a liberal commercial policy involved no inherent risks. It was this cogent consideration which lay behind the Board of Trade's relaxation on the ban on the export of machinery in 1825, as stated in the *Report on Machinery* submitted to the Board of Trade.

> The freedom which under our government every man has to use his capital, his labour and his talents, in the manner most conducive to his interests are inestimable advantages; canals are cut and railroads constructed by the voluntary association of persons whose local knowledge enables them to unite in the most desirable situations, and these great advantages cannot exist under less free governments. *These circumstances when taken together, give such a decided superiority to our people, that no injurious rivalry either in the construction of machinery or the manufacture of commodities can be reasonably anticipated.*[53]

This seminal quotation summarises both the achievements and the limitations of the liberal age. That the technical productivity of British

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52. *Cf.* the highly interesting petition by the merchants and manufacturers of London, Manchester and Liverpool addressed to the House of Commons in 1821. It is generally assumed that Thomas Tooke was its author. Porter, *op. cit.*, pp. 502-04.

53. Quoted in Charles Babbage, *On the Economy of Machinery and Manufacturers*, London, 1835, pp. 367-70. Although a special committee, set up in 1825 to study the problems of machine tool exports, suggested that the law should be modified, since they would not be prejudicial to British industry. The Manchester Chamber of Commerce opposed the export of certain types of specialised machine tools. *Cf.* A. Redford, *Manchester Merchants and Foreign Trade*, 1794-1858, Liverpool, 1934 p. 133. In 1843, *The Select Committee on the Exportation of Machinery* proposed abolition on all restrictions on machinery exports. The driving force behind this liberal gesture was not dictated by any abstract faith in the beneficence of competition. Nasmyth, the inventor of the steam-hammer, recognised this when he wrote in his *Autobiography* that it was more profitable to export machinery, rather than let a foreign country satisfy its own demand.

industry had turned the world into its servile handmaiden was partially true; but it was hardly prophetic to have nurtured the illusion (there were exceptions among the free traders) that English industrial supremacy would remain unchallenged "for all ages."[54] This was another of the articulate major premises[55] that lay behind free traders' minds in their appeals for the building of the new Jerusalem.

The system of "free trade," wrote Porter of the Board of Trade, means "unrestricted intercourse with foreign countries, in which no one country shall be placed, by regulations or differential duties, at a disadvantage with any other . . . a system in which the fallacy of protection shall be utterly disowned and abolished," and it was Britain's duty by her liberal conduct, to convince other nations of the efficacy of such action. "That the capital, skill and energy possessed and exercised by the inhabitants of these islands will, when unfettered, carry us forward to a degree of commercial and manufacturing prosperity of which the world has hitherto seen no example, it required little boldness to foretell; and that this prosperity will be attained to a very high degree, although the example of England should fail to convince the governments of other countries, and to be followed by them, does not admit of any doubt."[56]

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54. *Select Committee on Export of Tools and Machinery*, Board of Trade, 1825.

55. Indeed, Clapham has shown that subsequent adoption of free trade neither cut foreign investment nor checked skilled emigration, and that the assumption at the back of some of British free traders's minds in the twenties and thirties that foreigners might be induced to grow food and raw materials for eternity "if Britain would buy and use them freely, rested on questionable political assumptions, as an examination of French policy might have suggested." *An Economic History of Modern Britain, The Railway Age*, Vol. I, p. 492, Cambridge University Press, 1926.

Although the emigration laws were abolished in 1824, British artisans and capital did go abroad, much to the annoyance of McCulloch of the Board of Trade. *Cf.* his observations before the *Select Committee on Artisans and Machinery*, 1840, in C.K. Hobson's *Export of Capital*, London, 1914, p. 109; also Lord Brassey, *Works and Wages*, London, 1872, p. 82 and the more recent work of W.O. Henderson, *Britain and Industrial Europe*, 1750-1870: *Studies in British Influence on the Industrial Revolution in Western Europe*, Liverpool University Press, 1954.

56. G.H. Porter, *op. cit.*, pp. 475-6. Also L. Brown, *The Board of Trade and the Free Trade Movement* 1830-1842, Oxford, 1958

Political Economy: A Liberating Force

Economic liberalism, as formulated by post-Napoleonic theorists, was not a formless mass of doctrine unhurriedly elaborated in the sheltered calm of an academic cloister; but rather the reflection of those class forces that reached their maturity in the immediate post-war years. In this context it was a militant and coherent corpus of doctrine making short shrift of the cult of neutrality[57] and its protagonists pre-eminently public men, parliamentarians, writers, businessmen and teachers.

The forces which it represented were national in scope, and if these were apt to treat the "general interests" of the nation and their class interests as synonymous, they were legitimate in doing so for their interests coincided — at least on the domestic plane with the basic changes and trends of the productive forces.

Shackles of vested interests — mercantilists' vestiges of the seventeenth and eighteenth centuries; the interests of the West Indian slavocracy, the beneficiaries of the East India Company had to be liquidated, and this by the liberating force of political economy. Such was its historical mission, and in that social context classical political economy was not, and could not be "neutral."

As a battering ram against the abuses of colonial monopoly and mercantilism, the privileges and political prerogatives of a landed aristocracy, political economy initially played a revolutionary role. Economic liberalism was anti-slavery not because of any humanitarian impulses[58] but because it saw in slavery a deterrent to the expansion of the productive forces; it was anti-colonial because colonies were expensive encumbrances serving only as "gorgeous and ponderous appendages to swell our

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57. This also coincided with the emergence of industrial capitalism and its critics (Sismondi, Malthus, Lauderdale and the Chartists). It was in this context that "neutrality" was difficult if not well nigh impossible. It is interesting to note that Bohm-Bawerk refers to the position of Adam Smith on the question of the rate of interest as one of "complete neutrality," and adds that "in Adam Smith's time the relation of theory and practice still permitted such neutrality, but it was not long allowed to his followers." *Capital and Interest*, pp. 74-5. On the *parti-pris* of James Mill and Ricardo, see the observations of Edwin Cannan, *A History of the Theories of Production and Distribution in English Political Economy* from 1776 to 1848, London, 1893, p. 206. Although Ricardo was the high priest of economic liberalism he added in a significant chapter of his Principles "On Machinery" heretical confessions. He expressed the view that the introduction of machinery was capable of being inimical to the working class. McCulloch rebuked him for supplying thunder to the enemy, i.e. Malthus and Sismondi.

ostensible grandeur" without "improving our balance of trade." "After the immense revolution that has been carried into effect," thundered Disraeli, "we cannot cling to the rags and tatters of a protective system."[59] Mercantilism was not merely to be annihilated; its very memories were to be dammed. The liberal free traders were anti-tariff,[60] and anti-colonial[61] and anti-corn law[62] and anti-navigation law[63] because they saw—behind the protagonists of vested interests lay the defenders of a diseased and bankrupt system of economic restrictionism—enemies that had to be destroyed before the victory bells could peal. The ironmasters of Glamorganshire and their textile counterparts in Lancashire and Yorkshire, eager to cut wages, were all in favour of "the free breakfast table."[64]

Like Moses on Pisgah, the Manchester capitalist beheld the promised land. "The settled world," writes Plumb, "the world of Walpole and the Pelhams, had ended . . . . The English world had grown too large, its interests too complex, its way of life too industrial, for the constitution which a small, leisured, land-owing class had created . . . . But the passing

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58. *Cf.* the statement of T.B. Macaulay, *Hansard, Third Series*, LXXVII, 1290, 1292, 1300, 1302, February 26, 1845. Also B. Disraeli, *Life of Lord George Bentinck*, Vol. I, London, 1878. p. 78. When the American social revolution began in 1861, John Stuart Mill was revolted to find that the sympathies of the overwhelming majority of the liberal bourgeoisie lay with the "liberal" south against the "protectionist" north. "The working classes, and some of the literary and scientific men, being almost the sole exception to the general frenzy," commented Mill. Michael St. John Packe, *Life of John Stuart Mill*, London, 1954, p. 423.

59. *Hansard, Third Series*, CXXIV, 1036, March 3, 1853. *Cf.* his novel *Sybil* for an interesting description of these vested interests.

60. B. Holland, *The Fall of Protection*, 1840-1850, London, 1913

61. L.J. Ragatz, *The Fall of the Planter Class in the British Caribbean*, 1763-1833, New York, 1928; F. W. Pitman, "The West Indian Absentee Planter as a British Colonial Type," *Proceedings of the Pacific Coast Branch of the American Historical Association*, 1927.

62. D.G. Barnes, *A History of the English Corn Laws from 1606-1846*, London, 1930; C.R. Fay, *The Corn Laws and Social England*, London, 1932; A. Prentice, *The History of the Anti-Corn Law League*, 2 vols., London, 1853. L.A. Harper, *The English Navigation Laws*, New York, 1939.

63. A. Brady, *William Huskisson and Liberal Reform*, London, 1928.

64. E. Dolléans, *Histoire du Mouvement Ouvrier*, 1830-1871, Vol. I, Paris, 1936. For a very lucid exposition, see Chapter 2.

of an age, of a way of life, brought little except to the losers. But in them, stirred more than regret, it provoked ferocity and a determination to survive with the minimum loss of power.[65]

Their eclipse, however, was slower than that of their transatlantic counterparts which transpired within the relatively short span from Fort Sumter to Appomattox (1861-65).

The very notion of *political* economy was considered subversive.[66] The younger Carey held that Ricardo's *Principles* laid too much emphasis on class struggle and that his system was one of discord ". . . it creates hostility between classes . . . his book is a manual for demagogues who seek to gain power . . . ."[67] To be sure Ricardo intended it as a manual of ideological "enlightenment,"[68] and it was not fortuitous that he focused his abstractions on problems of class distribution.

In the sphere of systematic thought the canonisation of economic liberalism was complete.

Theoretically, the economic role of government intervention had little place except as it stood as the ultimate rampart protecting the privileges of property rights against the encroachments of the "lower order." Moreover, in term of class motivations, economic liberalism "afforded a measure of justification to the free activities of the individual capitalist, which attracted to it the support of the dominant social force behind authority."[69]

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65. J.H. Plumb, *England in the Eighteenth Century*, London, 1950, p. 140. Also P. Mantoux, *op. cit.*, Part III, Chapter II.

66. Reference to such things as "corn" and "drawbacks" were considered a "profanation of the academic profession." *Cf.* Introduction to *Stewart's Biographies*, ed. by Hamilton. For an excellent piece of scholarship describing the class basis of political economy, *Cf.* Elie Halevy, *La Naissance du Radicalisme Philosophique*, Paris, 1905.

67. H.C. Carey, *The Past, The Present, The Future*, London, 1848, pp. 74-5. J.M. Keynes tells of Professor Foxwell who once refused to deliver a presidential address to the Royal Economic Society about Ricardo on the ground that "his onslaught on the author of the dreadful heresy between capital and labour would have been too provocative," *Economic Journal*, December 1936, p. 592.

68. It is perhaps in this light that we can appreciate Viner's verdict on Ricardian ideology which he considered to be "a rule of expediency, always subordinate to the principle of utility, and never a dogma." "Bentham and J.S. Mill: The Utilitarian Background," *American Economic Review*, March 1949, reprinted in H.W. Spiegel, ed., *The Development of Economic Thought: Great Economists in Perspective*, New York, 1952.

For the former, until the advent of what Dicey called the "collectivist age"[70] the main function of the state was essentially what Adam Smith in an unguarded moment proclaimed it to be: a means that enabled the rich to sleep peacefully in their beds.[71]

The victory of the Ricardian tradition and economic liberalism was not unrelated to the economic soil from which it sprung. In its onslaughts against a demented social order it played a role comparable to those doctrines on the rights of man forming the matrix of the political and social liberalism that tremoured Europe to its foundations in the *annus mirabilis* of 1848.

In an illustrious passage of the *General Theory* Keynes noted that the completeness of the Ricardian victory was due to "a complex of suitabilities in the doctrine to the environment into which it was projected," and described the Ricardian tradition as having "conquered England as completely as the Holy Inquisition conquered Spain. Not only was his theory accepted by the city, by statesmen and by the academic world, but controversy ceased . . . ."[72]

But outside England, spokesmen in the less developed areas were less enthusiastic as to the applicability of economic liberalism to a soil in

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69. J.M. Keynes, *The General Theory*; his thrusts against the classical economists were shrewd and maliciously brilliant. "That it reached conclusions quite different from what the ordinary instructed person would expect, adds to its . . . prestige. That its teaching, translated into practice, was austere and often unpalatable, lent it virtue. That it was adapted to carry a vast and consistent logical superstructure gave it beauty. That it could explain much social injustice and apparent cruelty as an inevitable incident in the scheme of progress . . . commended it to authority" (pp.32-3)

70. By "collectivism" this liberal jurist meant social legislation and varous paraphernalia of the Welfare State. It is an interesting study because it appears at the watershed of a new age that was to see the advent of the modern corporation and the increasing power of the trade unions. A.V. Dicey, *Law and Public Opinion in England*, 1905.

71. "It is only under the shelter of the civil magistrate that the owner of valuable property . . . can sleep a single night in security." *The Wealth of Nations*, Book v, p. 760. I have used the one volume edition of Cannan, New York, 1936.

72. The statement by Keynes is correct in terms of the triumph of the Ricardian tradition. But there were differences regarding many of Ricardo's propositions. *Cf.* R. Meek, "The Decline of Ricardian Economies in England," *Economica*, February 1950. For a glimpse of Ricardo's milieu, cf. the work of Lionel Robbins, *Robert Torrens and the Evolution of Classical Economics*, London, 1957.

which it had no national roots, and its value as a conceptual framework in which problems of national and economic integration were paramount.

Emergence of Revolt

It was no paradox that the frontier community which had recently acquired its national independence was to repudiate the extremer forms of integral liberalism. The thirteen American states were far from an integrated national economy, and the over-riding objective of the young Republic, given the fissiparous tendencies, was to foster such integration and accelerate the economic take-off by increased reliance on the regulatory powers of the Federal Government.

Economic development was considered by the fathers of the federal constitution as a necessary corollary for safeguarding national emancipation. Indeed, thanks to the purposive policy interferences by the centre, development on a broad front was made possible; its prestige and power, prodigiously enhanced by the right of taxation, gave it a viable fiscal position to finance many industrial projects primarily in the field of external economies which otherwise would have been neglected.[73]

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73. C.W. Wright, *Economic History of the United States*, New York, 1940, p. 285. American economists have claimed that it was not until after the civil war when the economies of the states had become enmeshed into a national pattern and individual business concerns grew stronger no longer requiring state aid, that the principles of *laissez-faire* began to find wide acceptance. *Cf.* H. F. Williamson (ed.), *American Economic Growth*, New York, 1951, pp. 14-15. G.R. Taylor, *The Transport Revolution*, 1915-1860 (The Economic History of the United States Series, Vol. iv) New York, 1951. Also C.W. Kaiser, *History of the Academic Protectionist-Free Trade Controversy in America before 1860*, Philadelphia, 1939.

Also, Carter Goodrich, "Public Spirit and American Improvement," *Proceedings of the American Philosophical Society*, Vol. 92, October 1948. The same author, emphasised the stimulating impact of public investments on American economic growth. In the first half of the nineteenth century "proposals to construct canals and turnpikes and other improvements, and later the railroads at public expense, were among the most important policy questions of the time." "National Planning of Internal Improvements," *Political Science Quarterly*, March 1948. The English novelist and voyageur Trollope observed "that there is no point in the national character of the Americans which commands so much respect as the boldness and energy with which public works are undertaken and carried through," quoted in Goodrich, *op. cit.* Commenting on this trend Ragnar Nurkse adds: "While the American economy today impresses the world mainly by its mass production methods, in the early nineteenth century it distinguished itself above all by the way it was building up 'social overhead capital'," *Problems of Capital Formation in Underdeveloped Countries*, Oxford University Press, 1953, p. 153.

Given the new geo-economic and social framework of the Republic, a new doctrine was evolved which, although not breaking with the general implications of *laissez-faire*, was to modify and adapt it to novel conditions.

It was on the central issue of diversification that the publicists, theorists and statesmen of the new world argued that industrialisation was the *conditio sine qua non* for newly liberated countries, and protectionism imperative for their fledgling industries. The challenge to the "doctrines of Manchester," to use the elder Carey's expression, came from the Republic founders who insisted that the exigencies of development must take precedence over the "universal laws" of classicism. Such were the views of the Federalists which received their clearest exposition in the writings of the West Indian, Alexander Hamilton.

In his celebrated *Report on Manufactures* presented to the House of Representatives in 1791, he asserted that without an industrial base the survival of the American nation was jeopardised.

> "Not only the wealth but the independence and security of a country appear to be materially connected with the prosperity of manufactures. Every nation, with a view to those great objects, ought to endeavour to possess within itself, all the essential of national supply. These comprise the means of subsistence, habitation, clothing, and defence. The possession of these is necessary to the perfection of the body politic; to the safety as well as to the welfare of the society. The want of either is the want of an important organ of political life and motion; and in the various crises which await a state, it must severely feel the effects of any such deficiency.... To effect this change, as fast as shall be prudent, merits all the attention and all the zeal of our public councils: it is the next great work to be accomplished".[74]

The state was thus envisioned as a midwife aiding the birth of capitalist industrialisation.

George Washington, in his first inaugural address, urged that "manufacturers should be promoted because they tend to render us independent

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74. *Papers on Public Credit, Commerce and Finance*, Ed. by Sam McKee, Columbia University Press, 1934, pp. 227-8. *Cf.* N. Schachner, *Life of Alexander Hamilton*, New York, 1946. Matthew Carey, commenting on Hamilton's work, wrote that it was "the most perfect and luminous work ever published on the subject and more richly deserves the title of the *Wealth of Nations* than the celebrated work which bears this name." *Cf.* K.W. Rowe, *Matthew Carey, A Study in American Economic Development*, New York, 1933, p. 27.

of others for essential military supplies," and Madison repeatedly emphasised that "our own existence requires that, with respect to such articles, at least, as belong to our defence and primary wants we should not be left in a state of unnecessary dependence on external supplies.[75]

And further: "The champions of 'the let alone policy' forget that theories are the offspring of the closet; exceptions and qualifications the lessons of experience." Even Thomas Jefferson, a physiocrat by propensity[76] was physically appalled at the large urban agglomerations in Europe—"the sores of the body politic"—strenuously fought to avoid transforming the Republic into an industrial workshop (on the assumption that the "moral code" of an agricultural country was higher than that of an urbanized manufacturing country) but trimmed his sails after the cruel experiences of the Napoleonic wars.

Similarly, in his letter to Jean Baptiste Say,[77] Jefferson rationalised his defection from Smithian economics on the basis of strategic expediency—an argument, it may be noted, identical in content (though doctrinally different in form) invoked by Stalin on 15 May, 1935.[78] Addressing officers of the Frunze Military Academy he declared:

> We have had comrades who have said to us, what is the good of your industrialisation and collectivisation, your machines, your metallurgy, your tractors, your combines, . . . ? Backward as we are, the creation of a first-class industry is a dangerous dream . . . . Of course we could have spent on the import of raw materials and on the manufacture of necessary commodities the three thousand millions of gold roubles which we obtained at the cost of severe

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75. L. Start, *Early American Statemen on the Tariff*. p. 18. G. Hunt (ed.), *The Writings of James Madison*, New York, 1909.

76. *Works of Thomas Jefferson* (Washington ed.) Vol. I, p. 403.

77. E.M. Marle (ed.), *Makers of Modern Strategy*, Princeton University Press, 1943, p. 137.

78. The *raison d'être* of the breakneck tempo of Soviet industrialisation is best seen in the psychologically revealing statement by Stalin in a speech to industrial managers in 1931. "It is sometimes asked whether it is not possible to slow down the tempo. No comrades, it is not possible; the tempo must not be reduced; on the contrary, we must increase it as much as is within our powers and possibilities. To slacken the tempo would mean falling behind. And those who fall behind get beaten . . ."

> economies and spent on the creation of our industries. That would also have been a plan of its kind; but under such a plan we should have had no metallurgy, no machine tool industry, no tractors, no aviation, no tanks. We should have found ourselves disarmed before a foreign enemy.[79]

Speaking of the necessity of Indian industrialisation his successors used the same arguments sixteen years later.[80]

Thomas Cooper, Jefferson's friend and economic adviser, blue-printed the well-known "infant industry" argument in a letter to him: "I hope Congress will take measures of permanent protection in favour of our infant manufacturers. It will be a horrible fraud to entice our citizens to embark in the troublesome and hazardous speculation of new manufactures, and then on a sudden peace leave them to all the malignancy of British competition on our market." Although recognising the validity of "Adam Smith's general theory" he formulated an economic policy recommendation which acknowledged that there "may be cases, where necessity may dictate exceptions. Our markets ought to be more at home; more under our own command."[81] With amazing shrewdness, Cooper highlighted the class basis of protection—who were to be its adversaries and who its partisans.

The drive to industrialise was a means of uprooting the last vestige of British colonialism—the maritime interests. Federal aid to industry would be opposed by that class, Cooper argued, but the farmers and manufacturers would certainly not oppose protectionist measures. However, "they may be led, and misled, for a time, and their voice drowned by the mercantile outcry. But their wishes and their interests will be in favour of our own union. Would not some early and effective measure in support of domestic manufacturers tend to strengthen the opposition in those

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79. *Izvestia*, 16 May, 1935. In Allen and Muaratoff, *The Russian Campaigns of 1941-1943*, London, 1944, p. 18.

80. *Reports by N.A. Bulganin and N.S. Khrushche to the Supreme Soviet of the U.S.S.R. on their visit to India, Burma and Afghanistan*, December 29, 1955, Indian Ministry of Information, New Delhi, 1956.

81. *Jefferson Papers*, Thomas Cooper to Jefferson, December 4, 1808. In L.M. Sears, *Jefferson and the Embargo*, Duke University Press, 1927, p. 134.

states to the mercantile predilection for English goods, English politics and English government? It would certainly fix the manufacturing class decidedly in favour of the present measures, and probably frustrate the schemes of disunion now in contemplation."[82] Industrialisation was not to be seen exclusively in terms of welfare: there were *internal* politico-strategic factors that formed part of the balance-sheet.

Although the proposed objectives entailed considerable sacrifices they had to be relentlessly pursued. In a letter to Lafayette dated 24 February, 1819, Jefferson stated that although the embargo had been "a very trying measure," results were satisfactory and it had contributed to "set us all on domestic manufactures."

The doctrine of specialisation and the international division of labour had no relevance in the period of industrial gestation. They were elements, of course, which thwarted industrialisation, such as the powerful ship-owners of the Atlantic seaboard, who felt that their interests might be imperilled by a mechanised America and the liberal slave masters, who feared—and not mistakenly-that industrialisation would destroy them. Vested interests or no vested interests, argued Jefferson, if the resources exist in the country and there is a market for them, given skill and manpower resources, why should not the nation transform its own primary products into manufactured articles? To that question he answered:

> "I have largely inculcated the encouragement of manufacturing to the extent of our own consumption at least, in all articles of which we raise the raw materials .... On this the Federal papers and meetings have sounded the alarm of Chinese policy, destruction of commerce, etc.; this is to say, the iron which we make must not be wrought here into ploughs, axes, hoes, etc. in order that the shipowners may have the profit of carrying it to Europe, and bringing it back in a manufactured form, as if after manufacturing our raw materials for our own use there would not be a surplus of produce sufficient to employ a due proportion of navigation in carrying it to market and exchanging it for articles of which we have not the raw materials."[83] The implications of this reasoning were to "sacrifice agriculture and manufactures to commerce."

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82. L.M. Sears, *op. cit.*, p. 135

Given his defence of the "infant industry" argument, it was only a step to advocate that "true prosperity depends on a balance of activities," the embryo of List's concept of balance growth.

There was yet another problem which preoccupied the protagonists of industrialisation, and that was the threat of imported unemployment due to foreign competition and subsequent throttling of American domestic industry. Fluctuations emanating from the more developed countries, such as England, might easily be channelled into the less developed countries, it was claimed. As early as 1818, Carey had observed that the flood of British imports following the Napoleonic wars has caused widespread unemployment in the United States. Ricardo had argued that unemployment was a purely transitory phenomenon and that factors displaced by imports would find alternative employment given more and not less competition.[84] Carey brushed this argument aside as illiterate sophistry indicting classicism with having lost its grip on reality.

Where will he or his disciples (Smith, Mill) find "collateral manufactures, to employ printers, coachmakers, watchmakers, shoemakers, hatters, paper-makers, bookbinders, engravers, letter-founders, chandlers, silverplaters, jewellers, smiths, cabinet-makers, stone-cutters, glass cutters, brewers, tobacconists, potters, wiredrawers, tanners, curriers, dyers, rope-makers, calico-printers, paper-stainers, engine-makers, turners, wheelrights, and the great variety of other artists and manufacturers?"[85]

We have quoted this catalogue at length because it provides not only an insight into the mental processes of the "practical" economic publicist but also because it is a *reductio ad absurdum* of the classical contention that workers displaced from a given range of occupations will inevitably find new employment. The theoretical refinements of classical theory were discarded in the name of the later notion of full employment.

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83. *The Works of Thomas Jefferson*, Vol. xi, pp. 90-1, January 21, 1809. Sears, *op. cit.*, p. 137. On Jefferson's commercial policy Sears adds: "Jefferson was concerned to secure commercial treaties favourable to the new nation, even at the bayonet point of a protective tariff" (p. 12).

84. *Works and Correspondence*, Vol. v, pp. 85-6.

85. *Autobiography* (reprint), New York, 1942, pp. 103-4.

Just as World Wars I and II gave a fillip to the industrial transformation of some of the primary producers, the Napoleonic war quickened the industrialisation of the young Republic—an industrialisation that was to arouse the unabashed ire of Westminster. The liberal parliamentarian Brougham,[86] a spokesman of the Yorkshire woollen interest, vehemently called for a policy of dumping on the American market in order "by the glut, to stifle in the cradle those rising manufactures in the United States which the war had forced into existence *contrary to the natural course of things.*"[87] (Italics mine)

Impact of the American Economy

American economic development was to exercise a formative influence on another great nineteenth century heretic. Friedrich List[88] was born in Reutlingen, Wurtemberg, in the dramatic year that witnessed the storming of the Bastille; and which in a few brief years would see the diffusion of revolutionary democratic ideals and the elimination of the *ancien régime.*

France and Republican America were the stimulators, of the main contours of his intellectual constructs.

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86. *Cf.* Frances Hawkes, *Life of Henry Brougham,* London, 1957.

87. Quoted in K.W. Rowe, *Matthew Carey: A Study in American Economic Development,* Baltimore, 1933, p. 48. For the business cycle background to the controversy, cf. A.D. Gayer, *The Growth and Fluctuations of the British Economy,* 1790-1850, Oxford University Press, 1953.

88. Unfortunately there is no adequate biography of this extraordinary man either in French or in English. The work of Maurice Bouvier-Ajam, *Frederic List, Sa Vie, son Oeuvre, Son Influence,* Paris, 1938, is unsatisfactory and does not have an adequate bibliography or source references; the work of M.E. Hirst, *The Life of Frederick List and Selections from His Writings,* London, 1904, was published more than two decades before the publication of the collected works by the Friedrich List Gesellschaft under the editorship of E.V. Beckerath, K. Goeser, F. Lenz, W. Notz, E. Salin, A. Sommer. *Cf.* The excellent and comprehensive study by Friedrich Lenz, *Friedrich List: Der Mann und das Werk,* Munich, 1936, and by the same author *Friedrich List, die 'Vulgarokonomie' und Karl Marx,* Jna, 1930, and his later work, *Friedrich List und Grossdeutschland,* Leipzig, 1938 (unfortunately, this last work bears the impact of Nazism) and *Friedrich List und der Liberalismus,* Schmollers Jahrbuch, 48. Jahrgang, 1924; W. Schreiber, *Friedrich List als Denker und Staatsmann, die Staatslchre des jungen List,* Murrhardt, 1929. For an extraordinary documentary account of the Zollverein, *cf.* H. Oncken and F. M. Saemisch (eds.), *Vorgeschichte und Begrundung des deutschen Zollvereins,* 1815-1834, *Akten der Staaten des Deutschen Bundes und der europaischen Machte,* Berlin, 1933, 3 vols.

Coming from an impoverished region in the heart of checkerboard Central Europe, the American experiment had impressed upon this sensitive spirit the need for national integration as a pre-requisite of growth. List is a theorist of economic growth and prophet of national economic integration not because of the primordial importance of the American impact, but because he came from a country in which poverty and disunity were galling realities; and had not Voltaire declared that Germany was a region condemned to eternal squalor?[89]

But perhaps the most clearly discernible *idée force* of America on List was the cognizance that a doctrine which corresponded to the material conditions of a given region at a certain stage of economic growth was inapplicable to another at a different stage. Hamiltonian economics, like Listian economics, is a coherent body of doctrine hammered out of the exigencies of nation-building and the desire to harness the human potential to the task of creative economic reconstruction. Doctrine, in this view, is not conceived as something static but rather against a background of movement, in which ideology must adapt itself to different social frameworks.

The American Republic proved a social laboratory for the testing of his ideas,[90] and on the eve of his departure he stated: "I hope that the United States should give me a beautiful example to corroborate my assumptions."[91]

Two years after his arrival, he published his famous *Outlines of Political Economy*[92] for the Pennsylvania Society for the Promotion of Manufactures and the Mechanic Arts which foreshadowed all the leading ideas of his maturer work that was to be published fourteen years later.

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89. Herbert Feis, *Europe, the World's Banker* 1870-1914, Yale University Press, 1930, p. 60.

90. J.F. Müller, *Der amerikanische Einfluss auf Fredrich List*, Munich, 1940.

91. *Werke*, Vol. 1, p. 62.

92. *Werke*, Vol. 2. *Outlines of American Political Economy*, in a series of letters addressed by Frederick List, Esq. late Professor of Political Economy at the University of Tubingen in Germany, to Charles J. Ingersoll, Esq. Vice-President of the Pennsylvania Society for the promotion of Manufactures and the Mechanic Arts. To which is added the celebrated letters of Mr. Jefferson to Benjamin Austin, and of Mr. madison to the editors of the *Lynchburg Virginian*, Philadelphia; printed by Sam Parker, No. 48 Market Street, 1827.

The effect of the railway in opening up the Western territories and accelerating both industrialisation and national unity was not lost on him. "In no other country does one see the effects of transport on the intellectual and material life of the people."[93] Indeed, so fully Americanised had List become that he actually advocated financing railroad construction by the issue of banknotes — a process, in the opinion of Schumpeter, for which "there were only — and hardly wholly creditable — American precedents."[94]

Although he tells us that he brought the *Nationalitatsprinzip* in his baggage, Hamilton's influence was all-pervasive. An observation of this nature does not detract from his originality but merely serves to put him in perspective with his American legacy.[95]

An intellectual sword had been bequeathed to him by the inspired humanism of the French Revolution—and the fast moving vistas of the New World was to be a grindstone on which it was to be sharpened, for future battles in his dismembered country. In the Republic he served his apprenticeship for the tasks that lay ahead,[96] and in turn he provided a bridge between the New World and the Old. It was on his return to Germany in 1832 that he published his important work on railway economics,[97] and two years later the Zollverein, in which he was to play a decisive and dramatic role, laid the foundation stone of national unity.

The ascent to the pinnacle of national unity was steep and difficult; nor was it to be expected that it would receive the unanimous applause of

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93. *Werke*, Vol. 5, p. 14.

94. *History of Economic Analysis*, p. 505.

95. *Werke*, Vol. 2, p. 359.

96. The young republic he considered "die hohe Schule, um ihn für seine Hauptlebensarbeit vorzubereiten." William Roscher, *Zur Erinnerung an Fredrich List* in *Werke*, Vol. 2, p. 49. Also Lenz, *op. cit.*, p. 277.

97. *"Ueber ein sachsisches Eisenbahnsystem als Grundlage eines allgemeinen deutschen Eisenbahnsystem und insbesondere uber die Anlegung ener Eisenbahn von Leipzig nach Dresden"*, *Werke*, Vol. 5.

peoples of Germanic race. Baenaerts and others have destroyed the myth that the Zollverein was a "spontaneous national movement emanating from business circles all over Germany."[98] In fact, the sectional and local interests were as intense as those which divided the United States.

Baenaerts' thesis that the national unification drive did not spring from the German people themselves is correct, but requires qualification. The movement was largely dominated by Prussia — a salient fact which ultimately determined the tragic contours of German history to 1945.

But economists will raise formal objections to this approach because it obscures if not relegates the creative role of the German working class, and the colossal repercussions of the post-Napoleonic crisis on that class.[99] Baenaerts' contention that the Zollverein was a bourgeois movement is indisputable, and in terms of post-war adjustments and class alignments the historical parallelism with post-1815 Britain is indeed striking. The Chartists were the uncomfortable and transitory allies of the Manchester cotton kings — but the liberal revolutionary agitation was given leadership by the industrial bourgeoisie. And similarly with partitioned Germany.

Prior to 1815, economic unification had been advanced as a corollary of political unification.[100] In the post-Waterloo period it was militantly demanded as an economic imperative, with pressure being put on cabinets for their serious reconsideration, but the German political structure was such that national economic integration proved impossible. Although the movement for national economic integration did have popular roots, it was nevertheless overcast by the ominous shadow of Prussia.

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98. P. Baenaerts, *Les Origines de la grande Industrie Allemande: Essai sur l'histoire économique de la période du Zollverein* (1834-1866), Thèse, Paris, 1933, p. 67. Also the work of T.S. Hamerow, *Restoration, Revolution, Reaction: Economics and Politics in Germany* 1815-1871, Princeton University Press, 1958.

99. P. Schnell, *Das Frankfurter Handwerk von* 1816-1848, *ein Beitrag zur Wirtschaftsgeschichte*, Frankfurt, 1936.

100. Görres was in this respect a doctrinal precursor to List. He was the first to write on the problem of national economic unification. *Rheinischer Merkur*, 1814, *Cf.* A.H. Price, *The Evolution of the Zollverein: A Study of the Ideas and Institutions Leading to German Economic Unification between 1815 and 1833*, Michigan University Press, p. 21.

List: Theorist of Growth

It would be useful, however, to centre attention on another aspect of List's thought which seems to have been hitherto ignored — its cogency in respect to the industrialisation process of our time. The pertinence of his doctrinal constructs is to be seen in his closely knit economic philosophy of which the apparently isolated elements — protectionism, state interventionism, the role of the railways in economic development, the notion of balanced growth, etc. — are merely strands in a single pattern.

Our further contention is that his relevance to less developed countries stems from his methodological approach to problems of growth based on concrete sociological and historical case-studies. That was his precious legacy. To List, a concept was never considered as philosophically detached, but in intimate relation to its historical roots, and logic only relevant insofar as it was able to cast light on the problems of development, especially those which threw into relief the brakes and accelerators of economic progress. Moreover, in his approach to problems of his time, he was — like his contemporaries, Sismondi, Malthus, Marx and Engles[101] —

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101. The question as to who was the pioneer in the "theory of overproduction" has given rise to lively controversy in the history of economic thought. In contrast to Keynes, Marx claimed that Sismondi was the pioneer, whereas Malthus was a vulgar plagiarist. "Wer sollte auf den ersten Blick glauben, dass Malthus *'Principles of Political Economy'* bloss die malthusianisierte Uebersetzung von Sismondis *'Nouveaux Principes de l'Economie Politique'* sind? Und doch ist dieses der Fall. Sismondis Werk erschien 1819. Ein Jahr Nachher erblickte Malthus' englisches Zerrbild desselben das Licht der Welt. Er hatte wieder, wie früher bei Townsend und Anderson, jetzt bei Sismondi, einen theoretischen Anhaltspunkt für eines seiner dickleibigen okonomischen Pamphlete gefunden." *Theorien uber den Mehrwert: Aus dem nachgelassenen Manuskript, von Ricardo zur Vulgarokonomie*, ed. by K. Kautsky, Vol. 3, Stuttgart, 1910, p. 51, also Vol. 2, p. 314.

It is true that the *Principles* of Sismondi were written a year earlier than Malthus' work, but as Schumpeter has stressed the fact that would make Malthus a plagiarist would also make one of Marx. *Economic Analysis, op. cit.*, p. 481. According to Keynes, Malthus had not only formulated the "law of effective demand," but he was the real precursor of systematic and modern economic thinking. *Essays in Biography*, London, 1933, p. 125. Also the article "Malthus's General Theory of Employment and the Post-Napoleonic Depressions," *Journal of Economic History*, Vol. III, May 1943.

Marx was an implacable adversary of Malthus, but nevertheless on certain occasions he lauded the theoretical constructs of the pastor. "Es macht Malthus alle Ehre, dass er den Ton legt auf die auch an anderer Stelle in seiner Schrift direkt besprochene Verlängerung des Arbeitstages, während Ricardo und andere, im Angesicht der schreindsten Tatsachen, die konstante Grosse des Arbeitstages allen ihren Untersuchungen zugrunde legten," *Das Kapital: Kritik der politischen Oekonomie*, Vol. 1, Stuttgart, 1923, p. 466.

a rebel against the liberal strait-jacket which he believed could not provide a solution to problems confronting his own country. In this respect, it can be argued that he was a "nationalist" in the sense that he understood the catalytic mechanisms required to release those forces for the task of economic reconstruction and social transformation.[102]

In its initial stages, the price mechanism was not a sufficiently powerful detonator to breach the backwardness of centuries within a relatively brief span. This, in List's opinion, could only be done by a cohesive policy of national integration on the part of the state. Once pioneer demolition work had been accomplished, the price mechanism could play its role more efficiently as the conductor of the national economic orchestra. It is this latter aspect of List's thought which has been seized upon by those countries caught in the twentieth century industrial maelstrom.

The Nation State

Schumpeter has maintained that liberal economists from Smith to Marshall developed what may almost be called a general theory of economic growth. Taking institutional, political and natural endowment factors for granted, they started from the assumption that a social group, in the absence of war and mass destruction of productive power, will experience a certain rate of growth determined by population increase and savings. The effect of this is to widen the internal market, thus in turn accentuating the division of labour and so increasing productivity. "In the Smith-Mill-Marshall theory, the economy grows like a tree . . . . Each situation grows out of the preceding one in a uniquely determined way, and the individuals whose acts combine to produce each situation count individually for no more than do the individual cells of a tree."[103]

Indeed the Mill-Marshall school considered the process of capital accumulation and the development associated with it to be a self-perpetuating and self-equilibrating mechanism which would continue to function adequately if it were not tampered with either by state intervention or restrictions on trade. This was so because the capitalist entrepreneur was

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102. R. Gadgil, "Pre-conditions of Eonomic Development," *Indian Economic Review*, February 1952.

103. "Theoretical Problems," *Journal of Economic History, Supplement*, Vol. III, 1947.

considered the "accumulator." Competition was the spur which forced him to plough back and expand productive enterprise. He had either to expand or die. All that the mechanism required was to be wound up, and given investment opportunities and adequate profit-expectations it would continue to function without impairment.

To Ricardo and his disciples these observations were valid, subject to one important proviso, namely the availability of factors on the supply side at constant prices. The classical economists never had any fear of a shortage of labour as an object of exploitation so long as food was abundant and there were no hindrances to labour mobility, since according to the major premise of Malthusian demography, population would always increase up to the limits of subsistence. Indeed, economic growth could only be impaired by an increase in money wages generated by a rise in the cost of living due to the operation of the law of diminishing returns on the worker's subsistence, in the absence of free food imports. This was the only reason which could induce a fall in capital accumulation. The *political implications* that could and were drawn from this reasoning were obvious.

List demonstrated that classical political economy had no theory of growth, since by virtue of its "rootless cosmopolitanism"[104] it had ceased to consider the dynamic role of the nation-state. To List, economic growth was not conceived as cellular. He was in search of a formula, or rather a catalytic agent that would accelerate, with reference to his own national tree, this cellular growth. His researchers led him to discover the "nation-state" as the catalyst. It was this discovery, he tells us which led him on to deepen his researches.[105]

The reason for classical sterility is their avoidance of the concept of "productive forces" which when combined with institutional and social

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104. With an eye to List, Lionel Robbins writes: "I find no trace anywhere in their writings [the classical economists] of the vague cosmopolitanism with which they are often credited by continental writers." *The Theory of Economic Policy in English Political Economy*, London, 1952, p. 10. He then quotes Smith's *Theory of Moral Sentiments*, Part VI, Section II, to corroborate his view of the "patriotism" of the classical economists. List did not use the term "cosmopolitanism" in a pejorative manner. To List, it signified an economic approach, a method and tool of analysis. List never questioned their patriotism, to the contrary, their economic liberalism sprung from the most exalted forms of national interests.

105. *Werke*, Vol. 6, Preface.

changes can bring about radical economic transformations. It was not incumbent on economists to construct Utopias, as Fourier was doing, pushing men into phalanstères and making them as equal as possible in their intellectual and physical amenities, "but to maximise the productive forces, culture and the political power status of the nation and prepare the way to universal union."[106] List's nationalism is thus seen as an historical category destined to wither away in a larger world union.

Economic theory and its corollaries, argued List, must weigh quantitative economic forces in any consideration of growth problems. A uniform economic policy is inapplicable to countries at different historical stages of development. The concept of productive forces within the framework of the nation replaces the classical concepts of value and exchange market relations. "The nation creates its productive power from the spiritual and physical attributes of individuals, or from their social, civic and political conditions and institutions, the natural endowment structure, its technical heritage, and from its earlier strivings in agriculture, manufacturing and trade."[107] And hence national economic policy should be galvanised towards the build-up of the physical and intellectual resources of the nation.[108]

His entire economic philosophy of industrialisation hinged on an interventionist approach. The state was used to trigger the chain reaction of industrialism in the absence of an entrepreneurial class. It was primarily for this reason that many British technical experts were amazed at the role of the state in mobilising scientific talent and popularising industrial equipment. One of the British experts, T.E. Tennent, testifying before the *Select Committee on the Exportation of Machinery* in 1840, "found at Berlin the most enterprising and systematic exertions made on the part of the government to obtain a command of the manufacture of machinery. I found no expense spared for that purpose, and the exertions quite astonished me." And what was true of Berlin held equally for other German states. The Prussian Finance Minister von Rother was Listian in outlook when he declared in a report submitted in 1844, "that little advance will be made

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106. *Werke*, Vol. 6, pp. 365-6.

107. *Werke*, Vol. 6, p. 251.

108. *Werke*, Vol. 9, p. 147.

by accepting the common belief that the state should stand aloof and should certainly not engage itself in industrial enterprise . . . . I have shown how false is the familiar cry that a civil servant cannot compare with the private citizen when it comes to running an industrial undertaking successfully."[109] This did not imply exclusion of capitalist initiative. Rather a widening of the public sector was indispensable for the proper functioning and co-ordination of the private sector.

In the light of these facts, Carr's contention that "on the theoretical side, the title of father of economic planning belongs rather to Friedrich List than to Karl Marx"[110] has much to commend it. He goes on to remind us that the term "Planwirtschaft" was coined, and in practice developed, by Rathenau and his experts in the German War Materials Department in List's Fatherland and not originally, as had often been claimed, in the land of the Soviets.

Repudiation of Specialisation

If List categorically repudiated the doctrine of comparative costs, he did so because he saw how its premises had been conditioned by British technological leadership, that the meteoric expansion and cumulative revolutionary potential in applied science appeared at every point to be in contradiction with its assumptions.[111]

Keynes was not making a debating point when he stated that the rise of the modern chemical industry had made the law of comparative costs obsolete. "Modern productive processes of mass production can be performed in most countries and climates with almost equal efficiency."[112] And Sir Dennis Robertson pushed this line of argument a little further when he claimed that it is possible to produce out of "local dust and dirt" all sorts of things which previously had to be imported, and "in particular it has become evident that the simpler processes of textile manufacture

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109. B. Brockhage, *Zur Entwicklung des preussisch-deutchen Kapitalexports*, Leipzig, 1910, p. 27.

110. *The Soviet Impact on the Western World*, London, 1946, p. 23.

111. *Werke*, Vol. 6, p. 365.

112. "National Self-Sufficiency," *Yale Review*, June 1933

can be carried on with almost equal efficiency by almost any kind of population in almost any part of the world."[113] What was true on the eve of World War II is even truer with the swift advances in organised science since then and its effects on some of the principal products of the less developed areas. This point will be elaborated in a later chapter.

There is an even more basic criticism, however, of the classical argument that international specialisation is an equilibrating force in economic development. The speciousness of this argument in the light of the nineteenth century world economy and the inter-war years is now recognised. International specialisation has brought in its train a "freezing" of the economic endowments of a given country at a certain historically conditioned stage of development. Far from constituting a dynamic force in economic development in the less developed areas it has operated in the interests of the larger nationally integrated and better established industrial communities.

Many countries have remained as specialised primary producers mainly because of remediable backwardness in technology and scarcity of capital.

The point is not that all international specialisation is reprehensible from the perspective of economic development, but rather that international specialisation as evidenced between industrial and primary producers inevitably leads to unbalanced growth, with all its calamitous consequences, as mirrored largely in colonial economies and those in less developed politically independent areas.[114] The partisans of conventional liberalism assert that it would prejudice the interest of the world economy if every sovereign underdeveloped national entity were to construct a

113. The Future of International Trade," *Economic Journal*, Vol. XLVIII, March 1938.

114. The observations of the *Ohlin Report* are extremely cogent on this point: ". . . countries which first started the production of particular items tend to become more and more efficient and it becomes increasingly difficult for other firms or other countries to get a footing in the same field . . . . When a country is entirely or largely dependent on agriculture and has little or no manufacturing industry of its own . . . it may find it extremely difficult to develop any manufacturing industry in competition with the older established industries in more highly developed countries. Considerations of this nature have formed the basis for the 'infant industry' argument for protection . . . which in a wider application might be called the 'industrially underdeveloped region argument'." *Social Aspects of European Economic Co-operation*, Studies and Reports, No. 46, ILO, Geneva, 1956, para 32.

Pittsburgh, a Ruhr, a Sheffield or a Donetz-Krivoi Rog complex. This is fundamentally a static argument, for it presupposes a fixed *natural endowment structure*, whereas the crux of the question is not the permanency of this structure which should be considered in any analysis of problems of development, but rather mutations and transitions brought about within this structure by social change.

The trading relationship between underdeveloped primary producers and industrialised communities was, as List contended, a relationship of unequals, and hence there could be no equality of bargaining power between them. Does not history "prove," he contended, that the expansionary momentum of certain countries was brought to a halt because they remained exporters of raw materials and importers of manufactured goods? It was primarily for this reason that he was wary of the beneficence of specialisation between a technologically advanced economic unit and a backward agrarian raw material producing area.

The very nature of the production processes in an industrialised community is a precondition and a guarantee of steadier and faster rates of capital formation, national income and employment. The case is otherwise in a primary producing country whose principal foreign exchange earnings are derived either from a single crop or from a single fluctuating raw material export; as Balogh emphasised the familiar text-book example of Portugal exchanging wine for English cotton goods is scarcely apposite to the trading pattern of modern industrial countries whose productive capacity is expanding at the rate of anything between 2 and 10% annually.[115]

In addition, as Jefferson and List clearly saw, in the economics of war (in the words of D.H. Robertson) the "subtleties of comparative advantage become a foolish irrelevance."[116] In point of fact, the post-1945 decade demonstrated that it was not merely the economics of war that stimulated industrialisation, but equally the economics of the cold war and of partition—India, Korea, Indochina, Germany.

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115. *The New Statesman and Nation*, March 30, 1957.

116. *Economic Journal*, March 1938.

Industrialisation will inevitably induce changes in agricultural productivity, and growth should therefore be envisioned in terms of the synchronised take-off of the two major divisions of economic activity. The concept of balanced growth which entered theoretical and applied economics only since the end of World War II is Listian both in its verbal origins, and the sense with which it is used in research today.[117] "The classical school, by not penetrating deeply into the concept of productive forces, and failing to understand national conditions in their totality specifically misinterprets the concept of balanced growth (einer gleichmässigen Ausbildung) of agriculture, manufacturing and trade."[118] He stated in analytical terms of striking modernity that the pronounced symptoms of underdevelopment, i.e. rural overpopulation and fragmentation can only be tackled by siphoning off this surplus population into industrialised projects.[119]

It is noteworthy to compare the constructions of List with the observations of UN experts:

> As a result of the remarkable progress of science during the past two hundred years, the gap in technology between the developed and the underdeveloped countries has grown wider and wider. This gap is even more impressive than is the great inequality in wealth which separates them; the two are not unrelated. On the basis of a long cumulative scientific tradition, the advanced countries of Europe and America have made great strides . . . . While some of this new technology has reached the underdeveloped countries, it has only affected certain limited sectors of their economies, and has not permeated their social and economic structure . . .[120]

The authors of another United Nations study were Listian in their approach when they insisted that in a country where population is large

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117. *Cf.* R. Nurkse, *op. cit.*; and W. Arthur Lewis, *op. cit.*

118. *Werke*, Vol. 6, p. 180.

119. *Ibid*

in relation to cultivable land and where the land supports more people than can be fully employed in agriculture, substantial technical progress in agriculture is often found to be impossible without reducing the numbers in agriculture. In this case, a programme of increasing agricultural productivity will depend on the rate of industrialisation and the capacity for absorbing surplus rural population.

As List saw it, the triumph of industrialisation was a victory of virtue over vice and ignorance. "In primitive agricultural societies, subordination, superstition and ignorance dominate: these societies bristle with cultural inadequacies, poverty, absence of transport and are politically impotent."[121] The words could be that of any prominent spokesman of the Asian world.

The industrialisation process — and here the humanism of List rises to its peak — is seen as a catalyst[122] liberating man from the confines of a constricted world, blazing before him the endless frontiers of science, change and hope, and of freedom and the ability to transform society and thus transform himself.[123]

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120. *Measures for the Economic Development of Underdeveloped Areas*, United Nations, New York, 1952, para 79. It is generally recognised that a high level of economic activity is a prerequisite for a heavy demand for agricultural production, and a sustained rate of , industrialisation is essential for absorbing surplus farm population and for higher productivity in agriculture. "International Investments in Agriculture in Underdeveloped Areas of the World," *Monthly Bulletin of Agricultural Economics and Statistics*, November 1955, FAO, Vol. II.

On the problems of surplus agrarian population and its implications, cf. the monographs of Doreen Warriner, *Economics of Peasant Farming*, Oxford University Press, 1939; *Land and Poverty in the Middle East*, London, 1948; *Land Reform and Development in the Middle East: A Study of Egypt, Syria and Irag*, London, 1957; K. Mandelbaum, *The Industrialisation of Backward Areas*, Oxford Institute of Statistics, 1955; T.W. Schultz, *Economic Organization of Agriculture*, New York, 1953. In general per capita production in North America and in North-west Europe is ten to twenty times higher than in Asia, the Middle East or Latin America. United Nations, Department of Economic and Social Affairs, *Proceedings of the World Population Conference* 1954, New York, 1955, p. 107; H. Leibenstein, *Theory of Economic Demographic Development*, Princeton University Press, 1954; also W. Arthur Lewis, "Economic Development with Unlimited Supplies of Labour," *Manchester School of Economic and Social Studies*, May 1954.

121. *Werke*, Vol. 6, p. 180.

122. *Ibid*, p. 238.

The Infant Industry Thesis

It was the major plank of early British liberals that protectionism was self-defeating. The protective system, in Hume's metaphor, meant the picking of the pocket of one class by another, while it was compared by Villiers to so many monkeys in different cages each stealing from his neighbour's pan and each losing as much as he had stolen.[124]

List was not concerned about questioning the logic of these arguments with reference to Great Britain; but he considered that there were more basic criteria when it comes to less developed areas.

The infant industry thesis states that in the early stages of an industry's gestation, particularly when accompanied by decreasing costs and increasing output, production costs are apt to be higher owing to lack of industrial, business and organisational experience, the training of a skilled stable labour force and the necessity of experimentation. It is difficult for an industry which has already passed through this stage and is turning out a larger volume of products at lower costs not to complete successfully with the products of a newly established indigenous industry.

In the initial stages of industrialisation, present sacrifices are necessary for the acquisition of future benefits. This was one of the incidental costs of progress; the alternative being economic infanticide. Had not Adam Smith admitted the possibility of cultivating a domestic industry so long as the material preconditions necessary for its growth were present?[125] It is true, he argued, that protectionism in its inception will raise prices of manufactured goods, but this is necessary to give the nation time to build

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123. *Ibid*, p. 180. *The Economic Survey for Europe* for 1948 emphasises the point that even within Europe the discrepancies between the advanced and the backward areas are considerable. The net value of commodity production per head of population in countries of north-western Europe in that year was nearly twice the European average and as much as four times that of South and South-eastern Europe. Labour productivity in industry in the most developed countries was three times that of the less developed, and in agriculture (where labour productivity was universally lower than in industry) the difference between the more developed and less developed countries was as much as six to seven times (pp. 224-5).

124. *Hansard, Third Series*, LVII, 920, April 5, 1841

125. *The Wealth of Nations*, Book IV, Chapter II

up a viable productive base to ensure future supply and national defence.[126]

It was these facts which made List sceptical of liberal panaceas and the applicability of its preachments to countries with less congenial economic soils. John Stuart Mills, who borrowed the Listian "infant industry" thesis[127] without acknowledgement had argued (Mill's *Principles* was published two years after List's treatise) that protective duties were defensible "when imposed temporarily (especially in a young and rising industry) in hopes of naturalising a foreign industry, in itself perfectly, suitable to the circumstances of the country. The superiority of one country over another in a branch of production often arises only from having begun it sooner . . . ."[128]

It would have been utterly alien to List's method to reject *en bloc* liberal doctrine. As a "political liberal"[129] he observed that in order to attain the stage of "universal free trade" it would first of all be necessary for the less developed countries to raise their technical productivity to that prevailing in Britain's economy. Only when such an historical summit had been scaled would it be legitimate to speak of the practical universality of free trade — but not before.[130]

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126. *Werke*, Vol. 6, p. 180.

127. Mill was editor of *The Westminister Review* from 1840. This was the periodical which, together with *The Edinburgh Review* calumnied both List and the Zollverein. Although the first English translation by the Swiss Scholar Matile appeared in 1856, the *National System* was published in 1846, two years before Mill's *Principles*. No mention is made of List in the *Life of John Stuart Mill* by Michael St. John Packe, with a Preface by F.A. Hayek, London, 1954.

128. *Principles*, Ashley Ed., Book v, p. 922

129. In Germany, at any rate in the South, "it was considered a truism that every liberal must be a protectionist, and that every free trader necessarily a reactionary." Heinrich von Treitschke, *Deutsche Geschichte im 19ten Jahrhundert*, Leipzig, 1928, Vol. v, p. 451

130. List's observation on the Methuen Treaty (1703) and the Eden-Dupont de Nemours Treaty (1780). In List's view, although the doctrinal inspiration of these two treaties were different the end result was the same. This system of reciprocity, commented Mantoux, "could not fail to benefit chiefly the country which, thanks to its technical progress, could produce a greater quantity of goods at a lower price," *op. cit.*, p. 263. Also Witt Bowden, *Industrial Society in England towards the End of the Eighteenth Century*, New York, 1925, p. 207.

In the incipient stages of capitalist development the "infant industry" thesis was a stimulus to economic development, but in the maturer states it can be transformed from a self-propelling mechanism of growth into a self-perpetuating instrument of stagnation. Taussig showed that in the case of the United States, as in Imperial Germany after 1879, the march of technical improvement had "been extraordinarily rapid during the period of the maintenance of a high protective system."[131] After delineating the contributory factors other than protection, such as the spectacular expansion of the transport system, the exploitation of the Mesabi ores and the general advance of iron and steel technology, he goes on to state that on tariff questions economists cannot afford to be dogmatic.

But would these forces have turned *in this direction* so strongly and unerringly but for the shelter from foreign competition? Beyond question the protective system caused high profits to be reaped in the iron and steel establishments of the central district: and the stimulus from great gains promoted the unhesitating investment of capital on a large scale. And during the decade 1880-1890 the iron output in the Pittsburgh district and the rest of the central region grew to independent greatness. That sort of growth would have taken place eventually "tariff or no tariff."[132]

As far as the iron and steel industry was concerned Taussig's view was that protectionism was a "brilliant success" and "very possibly those economists who, being in principle neither protectionists nor free traders, seek to be guided only by the outcome in the ascertained facts of a concrete industry would render a verdict here not unfavourable to the policy of fostering 'national industry.'"[133] But different industries yielded different results.

On indisputable fact is that "infant industry" tariffs though rational under conditions of growth are often found to have been transformed into umbrellas protecting monopolistic privileges from the sharp winds of foreign competition which would otherwise necessitate rapid modernisation and rationalisation of manufacturing plant.

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131. F. W. Taussig, *Some Aspects of the Tariff Question*, Harvard University Press, 1931, p. 29.

132. *Ibid*, p. 150

133. *Ibid*, p. 151

A striking example, from a country which boasts of its liberal pedigree with almost religious fervour and which has unscrupulously used the tariff to shore up its vested interests, is that of the American watchmaking industry. General Omar Bradley, chairman of the Bulova Research and Development Laboratories, two years after a 50% tariff increase had been snapped on Swiss watches, declared that they were continuing to "cripple" American industry.[134] The same arguments are being invoked to stem Japanese electronic and Danish dairy produce exports to the US.

Observations like this, far from invalidating the ideas of Jefferson and the Fathers of the Republic or discrediting the infant industry thesis and its relevance in contemporary economic policy serve to highlight the significant structural changes that have occurred in tariffs. Whereas in the nineteenth century they were largely employed as a means for acclimatising industries that had to face foreign competition, today they are used by certain large already industrialised countries for the protection of the super-profits of mega corporations. From being a means of defence they have become a weapon of offence.

Protected by Himalayan tariffs against foreign competition, the restrictionists are able to maintain an oligopolistic price structure within the country and dump goods (which are sold at oligopoly profits within the tariff-protected area) at low prices on the world market. The corollary of this policy is the extension of the areas of monopolistic supremacy. The case of the Aluminium Company of America graphically illustrates the use and abuse of the tariff and its drastic effect on consumer sovereignty and purchasing power. For decades, the price of aluminium in the USA was maintained above world prices thanks to protective duties.[135]

The basic *raison d'être*, however, of an infant industry tariff is that newly established plants tend to be at a disadvantage in relation to older ones. The fledgling industry has to create a disciplined labour force, organise its raw material supply and the distribution of its product, overcome technical bottlenecks common to new plant location, invade their

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134. *New York Times*, January 20, 1957. It should be observed that the flagrant contradictions of such a statement with America's avowed multilateral intentions have not been sedulously ignored by certain State Department officials. *Cf.* Raymond Vernon, "Foreign Trade and National Defense." *Foreign Affairs*, October 1956; and the same author's *Trade Policy in Crisis*, Princeton University Press, 1958.

own national market previously dominated by foreign producers, build up its finances, solve innumerable managerial difficulties. Initially, all these bottlenecks are likely to inflate average unit costs of production appreciably above the level of foreign producers.

Moreover, as List emphasised handicaps to industrialisation do not merely stem from the above factors, but from certain institutional and social deficiencies — i.e. health standards, literacy, etc. These deficiencies will tend to raise production costs and hence reduce the ability of a new plant from competing successfully with more experienced firms in the industrialised countries. Insofar as its handicaps are of such a transient nature, a new industry has a justified claim to tariff protection which raises the price of competing imports to a level not far removed from its own unit costs of production. A tariff of this nature can contribute substantially to industrialisation, since it may well stimulate foreign investment which, in the absence of a tariff and unrestricted competition in the unprotected market, would otherwise have no migratory inducements.

But the urge for protection on the part of the less developed countries goes beyond the tariff debate.[136] Economists of the Economic Commission for Europe have shown that the demand for protection springs from the imbalance between industry ad agriculture (in the case of eastern and south-eastern Europe). In these regions, the existence of vast manpower surpluses in agriculture creates a situation where the money costs of

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135. In fact, it was only after World War II that the gigantic monopoly powers of this company were curbed. Thanks to the economic expansionism between 1941 and 1945—due to Federal economic financing—aluminium production climbed sharply. In 1944 Congress passed the *Surplus Property Act and the War Mobilization and Reconversion Act*. Both acts aimed at stemming monopoly and fostering new independent enterprise. One alumina, two reduction and three fabricating plants—built at a cost of more than $170 million—were sold to Reynolds for $57,582,000. One alumina, two reduction, and two fabricating plants—built at a cost of ore than $120 million—were sold to Kaiser for $43.5 million. As a result the aluminium industry, for the first time in fifty years, had three fully integrated competitive producers. W. Adams and H.M. Gray, *Monopoly in America: The Government as Promoter*, New York, 1955

136. "All that the less developed countries ask is that in the name of reducing barriers to international trade, they should not be denied the fullest opportunity to develop their economies and to choose and decide for themselves the most appropriate measures for the purpose." Sir N. Pillai, Indian Secretary of Foreign Affairs, *Press Release*, GATT/185, Geneva, 11 November 1954.

industrial production are higher, in relation to agriculture, than is warranted by comparative real costs in the two branches of the economy. Under such conditions, the exchange rate with which the foreign account tends to be in balance would be one at which industrial costs tend to be systematically non-competitive with foreign costs, and vice versa for agriculture.[137]

It is for this reason that the Economic Commission for Europe is opposed to the orthodox interpretation of the classical theory of specialisation and argues with an almost Listian ring that the existence of industrial and less developed countries side by side who must trade with each other, while benefiting from the division of labour, but who do not modify the main targets of their economic policy, constitutes a contradiction in terms.[138]

List realised that the reason why factors are unemployed is because normal market motivations are inadequate to start the cumulative expansionary process. In the experience of the less developed countries we find that distortions in the price mechanisms are necessary if certain selected planned activities and markets are to be developed. Where successful these changes will release a chain reaction beginning with the various activities selected, e.g. the basic industries in India and China, and extending to the consumer goods industries. Such planning implies that a certain pressure will be exercised on the countries' foreign balances, assuming a rapid rate of industrial expansion and excluding compensatory foreign aid.

The need for controls arise from a disequilibrium in the balance of payments, with the demand for foreign currencies exceeding the supply available at the current rate of exchange, indicating that the disequilibrium is sufficient to threaten exhaustion of national reserves set aside for meeting temporary balance of payments deficits. In order therefore to staunch the foreign exchange haemorrhage, it will be impelled (without premeditated restrictionist reservations) to clamp down controls on non-essential

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137. *E.C.E. Economic Survey of Europe since the war*, 1955.

138. *C.E.E. Etudes sur la situation economique de l'Europe en* 1953, Geneva, p. 232

imports and step up exports. Thus tariff procedures have supplemented the more refined instruments of monetary and fiscal controls.

It has been claimed by Ellis that these latter instruments are restrictionist" "One does not speak wholly facetiously in saying that to enforce these principles the government must prohibit everything."[139] In a work written in collaboration with Buchanan,[140] these authors see nothing but their negative qualities and illustrate this with reference to Chile.[141] As Ellis, Buchanan, and Ellsworth put it, even the practice common in a free enterprise economy of allocating available exchange on the basis of the share of total business done by each firm in some base period is inadequate (since, if firmly applied, it would freeze the existing market structure); discrimination they show may be unwittingly directed against potential new competitors; and in order to overcome this new firms may be admitted on an arbitrary basis.

These arguments, however, are inapplicable to countries where the public sector has assumed and will continue to assume a greater importance in the formation of national economic policy. However paradoxical this may appear at first sight, it vanishes when we consider monetary and exchange control as instruments for the mobilisation of their export gains. Moreover, given the fact that many quasi-planned economies are receiving foreign economic aid, this becomes a means for accelerating imports. Hence the restrictive features of monetary, fiscal and tariff policies are nullified.

Given this plan-orientation, import restrictions on non-essentials serve to increase essential imports, resulting in a shift in the import pattern from the former to the latter without any concomitant restrictive effects on total imports. Fiscal policy thus becomes a means whose use in the less developed plan-oriented economies fail to reduce total world demand. Faster the industrial take-off of the underdeveloped regions greater becomes their absorptive capacity for non-essentials, and thus the traditional fear

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139. *Exchange Control in Central Europe*, Harvard University Press, 1941, p. 305

140. N.S. Buchanan and H.S. Ellis, *Approaches to Economic Development*, New York, 1955, pp. 401-05.

141. P.T. Ellsworth, *Chile: An Economy in Transition*, New York, 1945

of the industrial communities that industrialisation would shatter their national rice bowl appears unfounded.

The development of international trade since 1815 shows that the overwhelming proportion of international trade was accounted for by industrial countries.[142]

As a country proceeds to industrialise and protectionist measures are introduced, a change in the import consumption pattern emerges, with a shift from cheaper consumption goods to high quality higher priced capital goods; given an increase in purchasing power generated by new industries, it may well serve to promote the import of higher priced consumption goods for the newly emergent technical and administrative middle class. Hence the imposition of restrictions would not necessarily lead to the export of unemployment in the industrial communities, but rather to a shift in the exporting country's export patterns the extent of which will be conditioned by its industrial and managerial ability.

Though superficially the industrialisation drives of the less developed countries may seem anti-expansionist the velocity with which they surge ahead in both industry and agriculture will give rise, in the long run, to a cumulative expansion in demand on the part of their more industrially developed trading partners.

List: The Legacy

List interpreted history as a dialectical process in which individuals and social groups were creative entities, and the concept of dynamic adaptation was the nucleus of his theory of economic growth. Growth, in turn, was determined and conditioned by natural and human resources, but the limitations on these could be overcome by effective social organisation, the application of science and technology, and intensive social discipline in harnessing these resources to a common goal. He was thus the precursor of what Thorsten Veblen later baptised the doctrine of institutionalism.

Regarding the formulation of economic policy, he emphasised that the decision makers must be adaptable to shifting circumstances, and that

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142. A.O. Hirschman, *National Power and the Structure of Foreign Trade*, University of California Press, 1945.

success of a social formula under one set of conditions may have calamitous consequences when applied to another. This, in embryo, was a theory of relativity applied to economics.

Admiration has its limits, and it would be doctrinally obtuse to suggest the integral validity of the Listian model for less developed communities about to commence the epic of industrialisation.

Indeed, Listianism is no more immediately relevant to them than Ricardianism is to those countries which proclaim their liberal faith on every possible occasion, notwithstanding that the structure of their national economies have ceased to correspond to the liberal blueprint.

Rather we should say that Listian inspiration lies in its spirit of healthy scepticism towards familiar but desiccated formulae and its strength not in precedence, but in the audacity of innovation.

List's life symbolised a unity of theory and practice, for he more than any other heretic of his time had stripped British economic liberalism of its quasi-theological pretensions, conclusively demonstrating that British industrial supremacy was not based on "eternal principles," nor was it a unique attribute of Anglo-Saxon racial superiority, but rather an historically conditioned force; and that if economic construction and social reconstruction are to surge ahead it was imperative that the human potential of the nation be mobilised with this aim in view.

Radical departures from traditional views — that in the views of the then dominant English political economist — earned List, despite his lack of appreciation of classical reasoning and a certain intolerance towards its methods of analysis, the homage of perhaps one of the most distinguished inheritors of the classical tradition. "The brilliant genius and national enthusiasm of List," wrote Alfred Marshall, "stands in contrast to the insular narrowness and self-confidence of the Ricardian school" for "he showed that in Germany and still more in America, many of its indirect effects (Free Trade) were evils . . . Many of his arguments were invalid, but many were not."[143]

And Schumpeter observes, "What this association the Zollverein means to Germans cannot be understood by members of those fortunate nations for which the right to national existence and national ambition have been

143. Alfred Marshall, *Principles*, (1896) p. 727, Eighth edition, London, 1936

a matter of course." As a "scientific economist," he continues, "List had one of the elements of greatness, namely, the grand vision of a national situation, which, though not in itself a scientific achievement, is a prerequisite for a certain type of scientific achievement — that type of which, in our day, Keynes is an outstanding example. Nor was List deficient in the specifically scientific requisites that must come in to implement vision if it is to bear scientific fruits."[144]

Marshall's evaluation, made in the 1890's, has not yet lost its force despite the changed constellation in the world economy for those countries who rightly or wrongly regard industrialisation and social change as the great redeemer.

List, as we know, was profoundly influenced by the nailing of economic liberalism on India. When at the turn of the century Indian economists began to shape their ideas, concepts and doctrine within the frame of "Indian economics,"[145] it was obvious that his outlook had been imbibed by an intellectual elite in the subcontinent — ideas that were to ramify and contribute towards the forging of a freedom movement after 1919.

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144. Jacob Schumpeter, *History of Economic Analysis*, London, 1955, p. 504.

145. P. Ranade was a brilliant example.

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THE INDIAN DOSSIER

Nations are not guided by whim. Their conduct is the end-product of the conditions under which they live. Similarly, their thoughts reflect their fundamental needs, fears, frustrations and the memories of their experiences. In a word, the historical heritage of a country determines the social forms and sociological norms to which it gravitates.

The concept of "free enterprise" used by classical economists, British administrators, civil servants and policy-makers during the nineteenth century and after, has left a bitterness in the minds of many Asians-and not merely of Indians, who were destined to feel the savage whiplash of economic liberalism.[146]

Liberal economic policy, based on what Lionel Robbins[147] dubbed the "cosmopolitan economic calculus," came to be identified with the forces of economic regression, reposing on the assumption of uniformity in world conditions. But "free enterprise" liberalism was also harnessed, in the course of its history in India, with political reaction and foreign dominance.

An enquiry into the evolution and impact of liberal doctrine in pre-independence India should not be of archaic interest to the economist concerned with the formulation of economic policy, given the inextricable inter-penetration of historical survivals in the contemporary social pattern. Let us take a concrete example. The American twentieth century colossus has now become — judging at least from official pronouncements — *the legatus apostolicus* of free enterprise. An Asian economist commented: "American aid in Asia is available largely to regimes which

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146. R.C. Dutt, *Economic History of India, Early British Rule, from the Rise of the British Power in* 1767 *to the Accession of Queen Victoria in* 1837, London, 1906; *India in the Victorian Age*, London, 1911. I have consulted at the India House Library and the University of London nearly all his original sources.

147. Lionel Robbins, "Economic Factors and International Disunity," *Royal Institute of International Affairs*, 1940.

have been judged by the peoples of Asia as being essentially undemocratic socially, economically and politically. *The emphasis on private enterprise* everywhere is interpreted, at least by many in India, as a reflection of a policy which on the plea of strengthening the democratic front could only lead to a bolstering up of undemocratic regimes."[148]

For Asian intellectuals a statement of this kind is commonplace rather than surprising. Without going into its merits or demerits, one thing is abundantly clear: the scathing attacks on liberal economic policy are not a recent post-war phenomenon, although they have admittedly assumed sharper focus but were already in evidence even before World War I.[149]

We have seen to what extent in China, and to a lesser extent in India and other countries in the Afro-Asian bloc, the anonymity of the price mechanism has been increasingly vitiated by consciously planned decisions of the Central Government (irrespective of the pace and mode of implementation of the various national plans). That we may or may not

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148. India Quarterly, April-June 1952. A U.S. Government Publication appears to appreciate the forces behind what it calls "the new nationalism" of the less developed areas. But it does not understand which of these forces militate against those of free enterprise in many of these countries. "If American investors were willing and able to supply most of the foreign capital ...and if the underdeveloped countries were willing and able to encourage large investments" the progress of economic development would be well served. "Economic Development Abroad and the Role of American Foreign Investment," *A Statement on National Policy by the Research Committee for Economic Development*, Washington, 1956, pp. 15-16. Similarly, W.F. Knowland has stated that if "the economic and political climate is made encouraging, there is substantial private capital in the world for investment in the underdeveloped countries." *New York Times*, 17 January 1956. The notion of changing their political climate, particularly since the acquisition of national independence, in order to induce foreign investment will hardly find a sympathetic echo among Asians. The former America Ambassador to India, Mr. Chester Bowles, has written: In India he was often asked: 'would America be concerned about our poverty if she were not afraid of our going communist?' My answer was that I believed we would. I fervently hope I am right." *Ambassador's Report*, New York, 1954, p. 342. The Soviets have given their own answer to this. "If there were no Soviet Union, would the monopolist circles and imperialist powers render assistance to the underdeveloped countries? Of course not. This has never happened before." *Reports to the Supreme Soviet of the U.S.S.R. by N.A. Bulganin and N.S. Krushchev on Their Visit to India, Burma and Afghanistan*, 29 December 1955, New Delhi, 1956, p. 45.

149. "The theoretical free trader, we believe, hardly exists in India at the present," wrote Montagu and Chelmsford in 1918, and added: "There is evidence to affirm that the Indian intellectual has not learned to appreciate the advantages of foreign capital." *Montagu-Chelmford Report on Indian Constitutional Reforms* (Cmd. 9109), Simla, 1918, p. 271.

like this trend is of little importance. It exists, and is not fortuitous. Viewed in perspective, it is the normal outcome of the social forces triggered by foreign occupation during their period of politico-economic overlordship in those countries.

The Rape of India

The conquest of India in 1757 at the battle of Plassey was quickly followed by the vast secular, technological and social revolutions in British agriculture and industry-the dethronement of mercantilism and the triumph of the new economic order that was to permeate every nook and cranny of Britain's domestic and foreign economic policy.

In the previous chapter we saw the upshot of the liquidation of the old social forces whose economic interests were harnessed to the mercantilist chariot. In India, however, economic policies of post-Napoleonic cabinets of ultra-liberal vintage were hardly distinguishable from the most sordid features of mercantilist policies in the seventeenth and eighteenth centuries.

What makes the Indian case-history particularly instructive is that it illuminates an important chapter in the history of economic liberalism, justifying Jenks's contention that "the world was never exactly the sort of free economy which this outlook assumed. Much less was it politically and morally a field in which universal, rational principles of peace, justice, and ordered progress automatically accompany the pound sterling."[150]

The benignity of economic laws held sway not merely in the metropolis but equally in India. "Throughout the nineteenth century," commented the authors of the *Royal Commission Industrial Report* of 1916, "the policy of the Government was controlled by the doctrine of *laissez-faire* in commercial and industrial matters, and its efforts to develop the material resources of the country were largely limited to improved transport and construction of irrigation works."

It is a fallacy to assume that *laissez-faire* ideology in India differed essentially from mercantilism in its end effects. Mercantilism, in essence, was based on monopolist privileges; *laissez-faire* assumed that the welfare of the community would be assured by the "simple system of natural liberty" and the untrammelled operation of the objective price

150. "British Experience with Foreign Investment," *Journal of Economic History*, December 1944.

mechanism.[151] Mercantilism and liberalism, in theory, were not merely different but incompatible, hence the idea of one country exploiting another by means of liberal economic policies was considered perverse. "England's trade with the colonial territories," wrote J.S. Mill, "is hardly to be considered as external trade, but more resembles the traffic between town and country and is amenable to the principles of the home trade."[152]

It was, of course, no contradiction for men who sincerely regarded *laissez-faire* as the golden rule of domestic policies to propose that the *Government of India* should exempt all cotton lands from land tax assessments for a given period, or that it should support cotton prices; that railway construction should be left to private capitalists but with the state guaranteeing their investments at 5%; and that the Government should take the initiative, notwithstanding the supposedly fixed attributes of the international division of labour, in establishing the indigo and tea industries.

There is no reason to regard this as a supreme paradox — for the men who framed and implemented policies that led to the annihilation of Indian manufacturing industry with the fury of a forest fire were not doctrinaires. No moral issues were involved. A dangerous competitor existed, and had to be destroyed. Compare the attitude of Lancashire and its parliamentary spokesmen in the nineteenth century with that adopted

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151. The mercantilist conception of the international division of labour differed little, in its practical implications, from liberal economic commercial policy. Postlethwayt, a mercantilist theorist, in his *Britain's Commercial Interest Explained* (1747) was one of the formulators of the concept of what came to be known as the Imperial division of labour. Cf. quotation in Henri Say, *Les Origines du Capitalisme Moderne*, Paris, 1946, P. 118. The celebrated British memorandum of 1726 stated, in very much the same language: "All advantageous projects or commercial gain in any Colony which are truly prejudicial to, and inconsistent with, the interests of the Mother Country, must be understood to be illegal and the practice of them unwarrantable, because they contradict the end for which the Colony has a being." For a similar statement of British mercantilist practice in the thirteen American colonies, cf. Charles and Mary Beard, *The Rise of American Civilisation*, New York, 1946, p. 195. "A colonist cannot make a button," commented the *Boston Gazette* of 29 April 1765. "a horsehoe, nor a hobnail, but some sooty ironmonger or respectable buttonmaker of Britain shall bawl and squall that his honour's worship is most egregiously maltreated, injured, cheated, and robbed by the rascally American republicans." Also the great work of C.M. Andrews, *The Colonial Period of American History*, New Haven, 1934-1938. Also "British Mercantilism and the Economic Development of the Thirteen Colonies", *Journal of Economic History*, Vol. XII, No. 2, 1952.

152. J.S. Mill, *Principles of Political Economy*, Book III, Chapter XXV, pp. 685-6 (1848), Ashley Edition.

by the British textile industry, in the twentieth century, when, as Staley said, it "bore the brunt of the transition occasioned by the increased efficiency of Japanese textile making." Commenting on that observation, Gadgil retorted that liberal economists like Staley frequently forget "the heavy transition costs that countries like India and China have borne for over a century."[153] It is these "transition costs' that we propose to consider.

Social Structure of Pre-British India

It was Macaulay's belief[154] that the British conquest of India occurred at a time when Indian society was in the throes of disintegration and that the civilising mission of British rule was "the reconstruction of a decomposed society." This was a familiar thesis brandished by liberal theorists in Macaulay's time and after.[155] But let us briefly examine the general lineaments of this society that was to be changed unrecognisably in less than a century.

The Royal Industrial Commission of 1916-1918 opened its Report by recalling that "at the time when the West of Europe, the birthplace of the

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153. E. Staley, *World Economy in Transition*, cited in *Economic Policy and Development*, Poona, 1955, p. 12.

154. T.B. Macaulay, *Hansard, Third Series*, Vol. XIX, 10 July 1833. The vigorous defence of the East India Company in Parliament by this outstanding liberal spokesman was inspired by purely financial reasons. The prospect of securing the position of law member with the East India Company (to which he was appointed in 1833) is explicitly referred to in a letter to his sister dated 17 August 1833: "The salary is ten thousand pounds a year. I am assured by persons who know Calcutta intimately and have themselves mixed in the highest circles and held the highest offices in that Presidency, that I may live in splendour there for five thousand pounds per year and save the rest of the salary with the accruing interest. I may therefore hope to return to England with a fortune of thirty thousand pounds. A larger fortune I never desired." *Life and Letters of Lord Macaulay*, edited by Sir, G.O. Trevelyan, London, 1876. These were Macaulay's private thoughts. His public visage was different. Before Parliament (in the same Parliamentary speech) he proclaimed: "I rejoice to see my countrymen, after ruling millions of subjects, after commanding victorious armies...after administering the revenues of great provinces, after judging the causes of wealthy Zemindars, after residing at the Courts of tributary Kings, *return to their native land with no more than a decent competence.*"

155. Taking her cue from Macaulay's *obiter dictum*, one British economic historian claims that "the British took over India in a state of economic nakedness .... British rule had to play the part of a universal provider .... India is the great example of what a Government can effect in raising the economic standard of a country." L.C.A. Knowles, *The Economic Development of the British Overseas Empire*, London, 1921, p. 274.

modern industrial system, was inhabited by uncivilised tribes, India was famous for the wealth . . . and high artistic skill of its craftsmen. And even at a much later period, when merchant adventurers from the West made their first appearance in India, the industrial development of this country was at any rate not inferior to that of the more advanced European nations."[156]

It has even been argued, in fact, that the industries of India were far more advanced than those of the West up to the advent of the industrial revolution, and Digby argued that "before the stream of loot began to flow to England, the industries of our country were at a low level. Lancashire spinning and weaving were on a par with corresponding industry in India so far as machinery was concerned; but the skill which had made Indian cottons a marvel of manufacture was wholly wanting in any of the Western nations."[157]

Bal Krishna writes that "even before the days of Solomon and Hiram, merchants of other nations came to India's busy ports to supply themselves with her products and manufactures. Strabo, Niarchus, Ptolemy, Megasthenes, Polo, Conti, Nikitin and a host of other travellers have borne testimony to her commercial greatness"; and it is no exaggeration to say that "India was the respiratory organ for the circulation and distribution of the monies and commodities of the commercial world."[158]

In Hindustan, the chief industry was textile manufacture, for which Bengal, Lucknow, Ahmedabad, Nagpur and Madura were important centres. Industrial centres existed in the Punjab and Kashmir. Iron, brass and copper centres existed at Benares, Tanjore, Poona, Nasik and Ahmedabad. Jewellery, stone carving, filigree work in gold and silver and artistic work in marble, sandalwood, ivory and glass were other

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156. Report of the Indian Industrial Commission, 1916-18 (Cmd. 51).

157. W. Digby, *Prosperous British India: A Revelation from Official Records*, London, 1902. Cf. the irony of the dedication: to Lord George Hamilton (Secretary of State for India), to Lord Curzon, etc. "with the hope that the facts herein recorded may lead to the amelioration of the condition of many millions of British subjects who, on every New Year's Day, enter upon a period which is certain, for their country as a whole, to be worse than the years already past."

158. Commercial Relations between India and England, London, 1924, p. 38.

important industries. In addition, there were various other arts and crafts such as tannery, perfumery and paper-making.[159]

In the field of iron working-as the iron pillars in New Delhi bear witness-India attained a remarkable degree of skill. "The wonderful iron pillar," comments V.A. Smith, "is a mass of wrought iron nearly 24 feet in height and estimated to weigh more than six tons. The metal is perfectly welded and its manipulation is a triumph of skill in the handling of a refractory material. It is not the only proof that the ancient Indians possessed an exceptional mastery over difficult problems of working iron and other materials. . . ."[160] "The skill that made such pillars," comments K.T. Shah, "could not have grown in a day, nor be the property of a freak or genius. It must be the growth of centuries of silent development."[161]

Nor was India backward in the field of naval construction. Her ships roamed the seven seas, and even as late as 1802 British warships were built by India and England borrowed blueprints from Indian builders.[162] The entrepôt trade was also largely in the hands of the Indians, and down to the beginning of the nineteenth century the products of India's shipbuilding industry equalled the technical level of ocean-going British vessels.[163]

The Indian farmer, too, could hardly be described as inefficient, although his methods were unscientific, his instruments primitive and his traditions empirical.

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159. R.C. Majumdar, H.C. Raychaudhuri, K. Datta, *An Advanced History of India*, London, 1948, p. 810.

160. *The Oxford History of India*, Oxford University Press, 1923, p. 196.

161. *Trade, Tariffs and Transport in India*, Bombay, 1923, p. 17.

162. R. Mookerji, *A History of Indian Shipping*, New York, 1926, p. 233.

163. The navigation laws were rigidly enforced so as to destroy the Indian merchant navy. See *Appendix* No. 47 *Supplement to the Fourth Report, East India Company*, 1813, quoted in Digby, *op. cit.*, pp. 101-03. One of the reasons—and from the political angle an understandable one—was to prevent contact between Indians and Englishmen at home. "The native sailors of India on their arrival here (in England) are led into scenes which soon divest them of the respect and awe they had entertained in India for the European character." Also the monograph of Ashoka Mehta, *Indian Shipping*, Calcutta, 1940.

The British agronomist Voelcker wrote: "At his best the Indian cultivator is quite as good as, and in some respects the superior of, the British farmer, whilst at his worst it can only be said that this state is brought about largely by an absence of facilities for improvement . . . . Nor need British farmers be surprised at what I say, for it must be remembered that the natives of India were cultivators centuries before we in England were . . . . What does, however, prevent them from growing larger crops is the limited facilities to which they have access, such as the supply of water and fertiliser. But, to take the ordinary acts of husbandry, nowhere would one find better instances of keeping land scrupulously clean from weeds, of ingenuity in device of water-raising appliances, of knowledge of soils and their capabilities, as well as of the exact time to sow and to reap, as one would in Indian agriculture . . . . It is wonderful, too, how much is known of the system of 'mixed crops' and of fallowing . . . ."[164]

In fact, the ancient Indian Communities were based on a blend of agriculture and manufacture.[165] The village was autonomous, except in the case of the larger villages of Bengal, where commodity production had already gone beyond the level of internal village consumption.

Marx neatly summarised the mechanism of this society. "The simplicity of the organisation of production in the self-sufficing communities," he wrote, "is that they constantly reproduce themselves in the same form, and when accidentally destroyed, spring up again on the spot. This simplicity supplies the key to the secret of the immutability of Asian societies, an unchangeableness in such striking contrast to the constant dissolution and remoulding of Asian states, and unceasing dynastic changes. The

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164. John A. Voelcker, *Report on the Improvement of Indian Agriculture*, London, 1893, p. 11. Also an analogous statement by the nineteenth century administrator Lord Ellenborough: ". . . in the details of cultivation the natives in India have little or nothing to learn from agriculturists in other quarters of the globe." *The Eastern Economist*, December 30, 1949. The observations of Alfred Marshall are quite pertinent on this point: "Every agricultural problem has peculiarities of its own; and some sides of it can be mastered by shrewd, experienced, alert instinctive judgement, better than by systematic reasoning based on ordered knowledge. Therefore, the agriculturist has never been apt to search for the general in the particular and the particular in the general. The progress of his art remained for the greater part empirical until men trained in industry, or commerce or in scienctific schools came to his aid." *Industry and Trade*, London, 1919, pp. 199-200.

165. L.S. O'Malley (ed.), *Modern India and the West*, London, 1941, p. 355.

structure of the economic elements of society remains untouched by the storm clouds of the political sky."[166]

And Lord Elphinstone stated: "From whatever point of view we examine the native government in the Deccan, the first and most important feature is the division into villages and townships. These communities contain in miniatures, all the materials of a state within themselves and are almost sufficient to protect their members, if all other governments are withdrawn."

These sparse observations may suffice to indicate that India, on the eve of the triumph of the British occupant, was far from being, as Macaulay and other empire builders argued, a technical backwater. Unfortunately, it is beyond our scope here to enter into the complex question of why pre-British India failed to make the leap from a semi-feudal mode of production into a full-fledged capitalist system.[167]

Pre-Capitalist Accumulation

The dazzling symbol of British eighteenth century mercantilism — the East India Company — had become an historical anachronism with the rise of nascent capitalism and a deadweight to the further acceleration of the production forces.

"A company that maintained armies and retailed tea, that carried a sword in one hand and a ledger in the other, was a contradiction, and had she traded with success would have been a prodigy." wrote the Ricardian McCulloch. "It was impossible to pay that attention to details that is indispensable to the carrying on of commerce with advantage."[168]

In 1813, the Company lost its trading monopoly in India but was permitted to enjoy its territorial possessions and trading profits.[169]

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166. K. Marx, *On India*, London, 1949, p. 391.

167. For a more exhaustive treatment, cf. K.S. Shelvankar, *The Problem of India*, London, 1940. For a wider background of the controversy on the transition from feudalism to capitalism, *cf.* the Dobb-Sweezy exchanges and Professor Takahashi's observations in *Science and Society*, Vol. XVI, No. 4, 1952; Vol. XVII, No. 4, 1953.

168. *Dictionary of Commerce*, London, 1837, p. 535. This, of course, followed Smith's attacks on the exclusive companies, *Wealth of Nations*, pp. 73, 601-2, 690-700, 710. *Cf.* M.E. Wilbur, *The East India Company*, New York, 1945.

"Manchester goods," wrote J.H. Clapham, "got a new outlet as the traders of Manchester had hoped when giving evidence against the monopoly."[170] By the *Charter Act* of 1833, the Company's monopoly of the China trade was broken, and it ceased to function exclusively as a trading corporation. After the India mutiny, this mercantilist relic was liquidated by *the Government of India Act* of 1 November 1958,[171] but not before a surprising defence of it had been made by John Stuart Mill, that "prince of liberals."[172] India was to be nationalised in the interests of the entire bourgeoisie.

Like Hamlet, it had fulfilled its destiny. Its plunder served as the fertilising agent that prepared the soil for the British industrial revolution of the eighteenth century.[173] There is unanimity among economic historians that commercial capitalism preceded normal accumulation; nowhere is this more grimly illustrated than in the conquest of India in the years following Plassey.[174]

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169. A.B. Keith, *A Constitutional History of India*, 1600-1935, London, 1936, p. 127.

170. *Ec. Hist. op. cit.*, Vol. 1, p. 438.

171. A.B. Keith, *op. cit.*, p. 165.

172. The attitude adopted by J.S. Mill, James Mill and Macaulay is interesting for several reasons, primarily because it highlights the failure of liberals to extend advocacy of their doctrine to more than a limited geographical area. The younger Mill called himself the "apostle of liberty" but was not prepared to extend this liberty to cover the right of self-determination for Indians. He was a racialist and a highly paid apologist of British colonial rapacity. On India, both the younger Mill and his father—his biographer tells us—"were more Tory than the Tories." This was true of all liberals, and J.M. Keynes himself, in his early days an India Office clerk was no exception. When Mill's defence was published, the Directors of the Company were surprised to find "how much theoretic eloquence could be brought to the support of what they secretly knew to be rather a hopeless case." With the dissolution of the Company Mill received "the handsome pension of £1,500 per annum." *Life of John Stuart Mill*, p. 390, M. St. John Packe. This neo-mercantilist apologia was called a *Memorandum of the Improvement in Administration of India during the Last Thirty Years and the Petition of the East Company to Parliament*, London, 1958.

173. P. Banerjee, *Indian Finance in the Days of the Company*, London, 1928. Also M. Eyre, *The East India Company*, New York, 1945.

174. It was capital accumulated from the West Indian slave trade that financed James Watt's the steam engine. Cf. J. Lord, *Capital and Steam Power*, London, 1923, p. 192. Also, Eric Williams, *Capitalism and Slavery*, Chapel Hall, 1944.

Although economists do not know enough about the origins of these inventions to be dogmatic, there is no reason to regard them as unrelated to the economic milieu of their time. Industrial inventions are social products in the sense that while they have an independent lineage of their own, "every inventor inherits both his problem and some of the aids to its solution from his predecessors."[175] Hence the questions posed by the inventor and the materials for his projects are shaped by the social and economic circumstances of the time.

The new technology was not the outcome of a special and unaccountable burst of inventive genius. In the case of the eighteenth century, to "point out that Arkwright and Watt were fortunate in the fact that the times were ripe for them is not to detract from their merits."[176] Plunder had winnowed the terrain. Writes J.D. Bernal in his *Science in History:* "Capital was derived in the first place from the great merchant profits of the preceding century, which had begun to skim the resources of the newly discovered lands in mines and plantations, both worked by slaves, or from the almost undisguised loot of India."

Strategic inventions of the second half of the century followed quickly on the heels of the Indian and West Indian plunder: those of the brothers Thomas and George Cranage, Peter Onions, Cort and Wilkinson, in engineering; the epoch-making invention of James Watt, patented in January 1769; and in the textile industry Hargreaves' spinning jenny in 1767; Arkwright's waterframe in 1768; Crompton's mule in 1779, and Cartwright's power-loom in 1785. These were some of the revolutionary inventions destined to remould agrarian England in less than a century and inversely of India in less than fifty years.

"Before the influx of the Indian plunder and the expansion of credit which followed," wrote Brooks Adams, "no force sufficient for this purpose existed; and had Watt lived fifty years earlier, he and his invention must have perished together. Possibly since the world began, no investment has ever yielded the profit reaped from the Indian plunder, because

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175. M. Dobb, *Studies in the Development of Capitalism*, London, 1944, p. 268. Also T.S. Ashton's monograph, *The Industrial Revolution*, 1760-1830, Oxford University Press, 1950, pp. 13-15. Also the great work of J.D. Bernal, *Science in History*, London, 1957.

176. G. Cunningham, *Growth of English Industry and Commerce*, Part II, Cambridge University Press, 1912, p. 610.

for nearly fifty years Great Britain stood without a competitor. From 1694 to Plassey the growth has been relatively slow . . . . Credit is the chosen vehicle of energy in centralised societies, and no sooner had treasure enough accumulated in London to offer a foundation than it shot up with marvellous rapidity. The arrival of the Bengal silver not only increased the mass of money, but stimulated its movement at once in 1759. The bank issued 10 and 15 pound notes, and in the country private firms poured forth a flood of paper."[177]

Edmund Burke said that when he came to London, in the middle of the century, there were fewer than twelve bankers' "shops." By 1790, "they were to be found in every market town."[178] The world of "the rag pickers," to use Cobbet's derogatory description of bankers, had now come into being[179] as an indispensable appendage of industrial capitalism.

And not inaccurately could that leading capitalist panegyrist exultantly declare that a shower "of wealth now fell copiously on the Company and its servants. A sum of eight hundred thousand pounds sterling in coined silver was sent down from Moorshedabad to Fort William . . . . Trade revived; and the signs of affluence appeared in every English house."[180]

The clipping of the company's wings in 1813 did not staunch the haemorrhage.

According to Digby, tribute exacted between Plassey and Waterloo amounted to £1,000,000,000. "We can hardly realise the enormity of this sum when we allow for the purchasing power of money in those days,"

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177. Brooks Adam, *The Law of Civilization and Decay*, New York, 1921, p. 317.

178. *Ibid.*

179. According to Andreades, the number of these "rag pickers," outside London increased from 12 in 1750 to 400 in 1800. *History of the Bank of England*, London, 1909, p. 171; also L. Jenks, *Migration of British Capital*, p. 24; D.M. Joslin estimates that the number of private banking firms in London rose from about 32 in 1760 to 52 in 1786. "London Private Bankers, 1720-1785," *Economic History Review*, Vol. VII, August 1954. Also the following works: L.S. Pressnell, *Country Banking in the Industrial Revolution*, Oxford University Press, 1956; W. Crick and J. Wadsworth, *A 100 Years of Joint Stock Banking*, London, 1936; W.T. King, *History of the London Discount Market*, London, 1936.

180. T.B. Macaulay, *Lord Clive, Critical and Historical Essays* (1840), London, 1909, p. 48.

he continued. "It is interesting to note that in 1815 the whole national debt of England was only £861 million, which was considerably below the estimated loot from India in the previous 50 years."[181] Digby's description is applicable to the crude stage in the exploitation of India that was to be considerably modified and streamlined with the advent of the nineteenth century. More rapacious and indirect means of tribute extortion were found.

It was notorious that only an infinitesimal proportion of the Company's revenue from taxes was allocated to public projects.[182] Out of this revenue, Indian goods were bought and exported to Europe for sale, to an average of over 13 million pounds a year between 1793 and 1812. India was not considered a viable market for England's consumer goods industry, but as a permanent source of tribute and a preserve for the plunderer, the colonial adventurer and the careerist. This was the familiar Clive-Hastings thesis as enunciated in the eighteenth century and echoed in the *Parliamentary Report on the East Indian Company* in 1813. "The importance of that immense Empire to this country," said the Report, "is rather to be estimated by the great annual addition it makes to the wealth and capital of the Kingdom, than by any eminent advantage which the manufacturers of the country can derive from the consumption of the natives of India."[183]

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181. Digby, *op. cit.*, p. 33.

182. Speaking at the time when the industrial bourgeoisie was turning its heavy artillery against the last remaining fortress of the East India Company (one year after the Mutiny), Cobden declared: "With regard to public works, if I were speaking for the natives of India, I would state . . . that in a single English county there are more useable roads than are to be found in the whole of India; and I say also that the single city of Manchester, in the supply of its inhabitants with the single article of water, has spent a larger sum of money than the East India Company has spent in the 14 years from 1834 to 1848 in public works of every kind throughout the whole of its vast dominions." *Hansard*, Vol. CLI, June 24, 1958; cf. Bishop Heber, *Memoirs and Correspondence*, London, 1830, Vol. II, p. 413. Also letter by the Government of Madras to the Court of Directors of the East India Company in 1814, in L. Rai, *England's Debt to India*, New York, 1917, p. 210. Also Parimal Ray, *India's Foreign Trade since 1870*, London, 1934, p. 34.

183. *Report of the East India Company* for 1813, quoted in Prashad, *Some Aspects of India's Foregin Trade*, p. 49.

Later British capital investment was first raised in India by the plunder of its people and then written down as debt owed by India to Britain, on which India henceforth had to pay interest and dividends.

As stated, tribute to the occupant preceded the advent of industrial capitalism, but there was nevertheless a difference in the structure of the tribute extorted by the East India Company in the pre and post-Napoleonic periods. "The new way," wrote Kumarappa, "was not to take the money or goods from India, but to debit India with Britain's charges." The upshot was identical. "The wealth production in India is diverted to England without the Indian getting any benefit in return, so that the bulk of what is known today as the 'public debt of India' is built up by such false debits."[184]

Writing in 1859, Sir George Wingate defined tribute as "a payment made by one country to another in consequence of subjection. It is a transference of a portion of the annual revenue of the subject country to the ruling country without any material equivalent being given in exchange."[185] Wingate went on to explain that taxes spent in the country "from which they are raised are totally different from taxes raised in one country and spent in another" because in the latter case they constitute an "absolute loss and extinction of the whole amount withdrawn from the taxed country." Such tribute was mulcted from the Indian people under the innocent designation of *Home Charges of the Indian Government*, composed of dividends on East India stock, interest on Home debt, salaries of officers connected with the Home Department of the Indian Government, leave pay and retirement pay for members of the "Indian" Military and Civil Services and the maintenance and transport costs of the Military establishment.

As to the size of the tribute levied on India, Sir George estimated, that in the seventeen years' period 1834-35 and 1850-51, it amounted to £57,610,000 in private remittances and transfers, and the surplus of exports over imports including bullion was not less than £70,000,000 in

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184. *Public Finance and Our Poverty*, Ahmedabad, 1945, p. 47.

185. *A Few Words on Our Financial Relations with India*, London, 1859, p. 8.

seventeen years. "The sum of £4,221,611 per annum may be considered to represent the tribute."[186]

Before the 1840 Committee, Montgomery Martin testified that "it is a curious calculation, that estimating the sums of money drawn from British India for the last thirty years at three million per annum, it amounts at 12% (the Indian rate of interest), compound interest, to £723,997,971; or, if we calculate it as two millions per annum for fifty years, the abstraction of fructifying capital from Hindustan amounts to the incredible sum of £8,400,000,000."[187]

Thanks to this tribute Great Britain was able to pursue wars in Asia, Ceylon, Singapore, Hong Kong, Aden and Rangoon. "The first China war, the Afghan war, the Burmese and the Persian wars," writes Wingate, "were chiefly fought with the revenues of our Indian empire; but in pursuance of a British policy, with which the interests of India were but remotely concerned."[188]

Much of this unproductive debt was piled up by battening on India every conceivable charge that human ingenuity could think of, and even the milk for Queen Victoria's cat was (apocryphally) debited to India.

This scandalous tragi-comedy has been described by Jenks:

> The burdens that it was found convenient to India seem preposterous. The costs of the Mutiny, the price of the transfer of the Company's rights to the Crown, the expenses of simultaneous wars in China and Abyssinia, every governmental item in London that remotely related to India down to the fees of the charwomen in India House and the expenses of ships that sailed but did not participate in hostilities and the cost of Indian regiments for six months' training at home before they sailed—all were charged to the account of the unrepresented ryot. The Sultan of Turkey visited London in 1868 in state and his official ball was arranged for at the India Office and the bill charged to India. A lunatic asylum

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186. *op. cit.*, p. 64.

187. Question No. 4137.

188. Wingate, *op. cit.*, pp. 6-7.

> in Ealing, gifts to members of a Zanzibar mission, the consular and diplomatic establishment of Great Britain in China and in Persia, part of the permanent expenses of the Mediterranean fleet and the entire cost of a line of telegraph from England to India had been charged before 1870 to the Indian Treasury. It is small wonder that the India revenues swelled from £33 millions to £52 millions a year during the first thirteen years of Crown administration, and that deficits accumulated from 1866 to 1870 amounting to £11.5 millions. A Home Debt of £30,000,000 was brought into existence between 1857 and 1860 and steadily added to, while British statesmen achieved reputations for economy and financial skill through the judicious manipulation of the Indian accounts.[189]

Onerous financial and military costs were normal correlatives of the occupation right up to its capitulation, and not the specific attributes of Victorian imperialism. Not only did Indian loot finance plans of British territorial aggrandisement, but the Indian soldier was the spearhead of it, with military expropriations gouging enormous hunks of the budget. Between 1838 and 1920, the Indian army was used outside India on nineteen occasions, and hence "the natives" could legitimately plead that "the service alleged to be rendered by that instrument to the Indian people is clearly out of all proportion to its cost."[190]

Table 1 compiled from the *Statesmen's Year Book* for 1922 gives the proportion of military expenditure of the countries of the Empire in relation to other countries.

In his book on India, Labour Prime Minister Ramsay MacDonald noted that "a large part of the Army in India — certainly one half — is an Imperial Army which we require for purposes other than purely Indian; and its cost, therefore, should be met from the imperial and not Indian funds."[191] "If the Empire would read-just the burdens which it imposes

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189. *The Migration of British Capital to 1875*, London, 1938, pp. 223-4. Cf. Buchanan's testimony before the *Welby Commission, Indian Expenditure Commission*, 1895, Vol. IV, p. 149.

190. K. T. Shah and K.H. Khambata, *Wealth and Taxable Capacity of India*, London and Bombay, 1924, p. 272.

191. J.R. MacDonald, *The Indian Government*, London, 1920, p. 154.

upon Indian finance and if that were done and nothing more," he went on, "the Indian government could inaugurate great reforms which would increase Indian wealth."[192] W.S. Blunt's recommendation on this score was cogent: "Finance, not legislation, is the cause of all the evil; and until that is put upon a sound footing, the rest is of no real value."[193]

TABLE 3. *Military Expenditures and Revenues 1922*

COUNTRY (1)	TOTAL REVENUE (2)	TOTAL EXPENDITURE (3)	DEFENCE EXPENDITURE (4)	4 AS. PER CENT OF 3	4 AS. PER CENT OF 2
		(Figures in millions)			
India (Rupees)	1332.2	1423.9	919.0	70.7	63.8
UK (£)	1426.9	1195.4	642.0	45.0	53.7
Australia (£)	61.78	64.60	32.20	50.0	48.3
Canada (£)	89.38	74.19	17.9	20.0	24.2
S. Africa (£)	29.67	25.69	13.4	45.2	52.2
Spain (Pesetas)	1976.66	2550.79	450.36	22.8	17.6
France (Francs)	2245.9	24932.0	5027.0	22.4	20.0
Italy (Lire)	17603.0	20454.8	3553.77	20.0	17.3
USA (Dollars)	3345.18	3143.41	1201.44	35.9	38.2
Japan (Yens)	1319.20	1399.29	646.40	49.0	46.2

Source: K.T. Shah and K.H. Khambata, *Wealth and Taxable Capacity of India*, London and Bombay, 1924, p. 267.

192. *op. cit.*, p. 158.

193. *India under Ripon*, London, 1909, p. 158.

In Toynbee's 41 nation survey for 1929 India topped the list with 45.25% of public expenditure slated for armaments. Corresponding figures were 16.09 for the USA, 14.75 for Great Britain and 7.6 for Germany.[194] And this is in a country kept forcibly ruralised with standards skirting the famine line.

Analysing the 1935-36 Indian budget, Ahmad showed how unproductive expenditure predominated.

	(In millions of rupees)
Military	500
Interest on productive debt out of the profits of commercial departments	450
Interest on unproductive debt	126
Avoidance of debt - i.e. debt retirement	43
Administration of justice, jails and police	203

This contrasts with the trifling expenditures on nation-building infrastructural projects. Indeed, the item "administration of justice, jails and police" was only a little less than the combined expenditures on these "nation-building" activities:

	(In millions of rupees)
Agriculture	27
Industry	9
Scientific departments	7
Medical and public health	55
Education-mostly at the secondary and college level	122[195]

But wasteful expenditures was merely one part of the burden borne by India in the name of the "sacred trust of Empire," and would perhaps have been more physically tolerable if industrialisation had paced ahead during the occupation. To be sure, capital formation was stultified by the razing of Indian manufactures and the exigencies of imperial tribute.[196]

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194. *Survey of International Affairs*, London, 1929.

195. Z.A. *Ahmad, Congress Political and Economic Studies*, No. 8, "Public Revenue and Expenditure in India," Bombay, 1938, pp. 44-5.

Annihilation of Indian Manufactures

Addressing the Committee on East Indian Affairs in the House of Commons in July 1930, Mr. Rickards stated: "India requires capital to bring forth her resources; but the fittest capital for this purpose would be one of native growth and such a capital would be created if our institutions did not obstruct it."

When the Chairman of the Committee asked another witness, Mr. Macan, if it was feasible for Europeans to undertake investment in India, he answered: "I think Europeans who have acquired capital in India might undertake such public works, with proper encouragement; but I scarcely can anticipate so much enterprise and risk as to take capital from England to invest in such speculations; in truth, *capital is, I believe, never taken from England to India: it is made there and remitted home.*"[197]

British steam power, coal, iron and steel, and a burgeoning textile industry was the technological leviathan against which an occupied India was to be pitted. It was a test of the tiger and the deer.

In 1814, 818,208 yards of cotton cloth were exported to India; in 1821, 19,138,726; in 1828, 42,822,077; and in 1835, 51,777,277.[198]

Fighting a rearguard action to defend its pickings the East India Company presented a petition to Parliament on 11 February 1840 which has

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196. On the question of the extraction of tribute in the modern period see K.T. Shah and K.H. Khambata, *op. cit.*, as well as C. Vakil, *Financial Developments in Modern India*, 1860-1924. Also Sir, M. Visvesvaraya in his *Planned Economy for India*, 1934. The American economist Lawrence K. Rosinger, in his report *Independence for Colonial Asia—the Cost to the Western World*, arrived at the following calculations:

	(in millions)
Interest charges on £670 million of British investment at	
British rate of interest of 6/7/8%	£46
Home charges	£33
Trade	£30
Shipping	£20
Remittances by Britishers serving in India	£6
TOTAL	£135

Source: *Hindustan Standard*, Calcutta, 5 July 1945.

197. Question, L. 436, *cf.* following section.

198. Figures quoted by G.G. de Larpente, Chairman of the East India Association and one of the key witnesses before the Parliamentary Committee of 1840.

become a classic document on Indo-British nineteenth century relations. That the *dramatis personae* are mostly spokesmen of an ascendant class makes it revelatory.[199]

Asked by the committee to testify, Montgomery Martin[200] stated that he had studied the trends in Indian trade for several years in an objective way, and was convinced that an outrage had been committed "by reason of the outcry for free trade on the part of England without permitting to India a free trade herself."[201]

After supplying statistical data of Indian textile exports to Great Britain, he pointed out that between 1815-1832 prohibitive duties ranging from 10 to 20, 30, 50 100 and 1,000% were levied on articles from India. The decay and destruction of Surat, Dacca, Murshidabad and other places, where native manufactures had been located, is "too painful a fact to dwell upon. I do not consider that it has been in the fair course of trade; I think that it has been the power of the stronger exercised over the weaker."[202]

The committee noted (in a parliamentary report preceding abolition of the monopoly in 1813) that Indian cotton and silk exports up to that date could be sold for a profit in the British market anywhere between 50-60% lower than British goods. In liberal opinion this could and was rectified by total embargo or by upscaling import duties to 70 or 80% of their value.

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199. *Minutes of Evidence Taken before the Select Committee of the House of Lords, Appointed to Consider the Petition of the East India Company for Relief*, 1840.

200. The works of this remarkable man are in invaluable source of background material. *The Political, Commercial and Financial Condition of the Anglo-Eastern Empire* (1832).*The Indian Empire: its History, Topography, Government, Finance, Commerce and Staple Products* (3 vols., 1858-1861). *The Progress and Present State of British India* (1862).

201. Question 3876.

202. Question 3877. The famous textile centre of Dacca, which Clive described in 1757 as "extensive, populous and rich as the city of London" was to be transformed into a veritable desert. "The population of the town of Dacca," asserted Sir Charles Trevelyan before the Select Committee in 1840, "has fallen from 150,000 to 30,000 and the jungle and malaria are fast encroaching upon the town. . . Dacca, the Manchester of India, has fallen off from a very flourishing town to a very poor and small town." Similarly, Sir Henry Cotton, writing at the end of the century, could declare that "the present population of the town of Dacca is only 79,000. This decadence has occurred not only in Dacca, but in all districts." *New India*, London. 1885, p. 27.

"Had this not been the case," wrote Horace Wilson, "the mills of Paisley and Manchester would have been stopped in their outset, and could scarcely have been again set in motion, even by the power of steam. They were created by the sacrifice of Indian manufactures."[203]

Indeed, the claims of the lords of cottonopolis (in contrast to the protected and older established woollen industry) that they owed their preeminence to the nirvana of competition is mendacious.[204]

Toynbee's and Mantoux' researches indicated that only when England had already made significant industrial inroads that a more ideologically coherent liberal economic policy emerged. Scarcely any manufacturing, wrote Lecky, had "ever been practised in England that had not been

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203. H.H. Wilson, *History of British India*, London, 1826, Vol. 1, p. 385. Quoted *in Bengal Land Revenue Commission Report*, Vol. 1. p. 325.

204. In reality, the cotton textile industry had come into being, thanks to the protection provided during the eighteenth century for the wollen industry, which had been unable to compete with Indian calicoes. "The woollen interests," wrote Pares "demanded protection and got it. It did not succeed in protecting them, nor did it destroy the Indian textiles directly; but it unintentionally established the English cotton industry which destroyed them a hundred years later.: *Economic History Review*, Vol. IX, 1938-1939. In 1700, an Act was passed prohibiting the entry of Indian, Chinese and Persian printed fabric. All merchandise seized in contravention of the law was confiscated and sold. *Cf.* B. Krishna, *Commercial Relations between India and England from 1601 to 1757*, p. 194; C. J. Hamilton, *Trade Relations between England and India*, 1660-1896, Calcutta, 1917. Commenting on the beginnings of the cotton industry, Mantoux writes: "Its creation followed the import of a foreign product, and the place and conditions of its establishment were partly determined by the fact that the raw material was imported from abroad. A no less interesting feature is the part played by the ancient industry. It was that very industry which, by its blind passion for monopoly, stirred up that competition which it tried to kill a few years later: for it is from the prohibition of 1700 that the success of English-made cotton goods, as a substitute for Indian fabrics can be said to date." *op. cit.*, p. 208. An index of the popularity of East India cottons is to be gauged from the observation of Daniel Defoe: "The general fansie of the people runs upon East India goods to that degree that the chintz and painted calicoes which before were only made use of for carpets, quilts, etc., and to clothe children and ordinary people now became the dress of our ladies and such is the power of a mode as we saw our persons of quality dressed in Indian carpets which but a few years back before their chambermaids would have thought too ordinary for them; the chintzes were advanced from lying on to their backs, from the foot cloth to the petticoat, and even the queen herself at that time was pleased to appear in China and Japan. . . . Nor was this all, but it crept into our houses, our closets and bedchambers; curtains, cushions, chairs and at last beds themselves were nothing but calicoes or Indian stuffs."*Weekly Review*, January 1708, in Baines, *The History of the Cotton Manufacture in Great Britain*, 1835, p. 79. Also W. Sombart, *Luxus und Kapitalismus*, Munich, 1913, p. 146.

fortified by restriction or subsidised by bounties. In fact it was the extreme narrowness of that manufacturing influence which became dominant at the Revolution and which alienated America, ruined the rising industries of Ireland, crushed the calico manufacturers of India, and imposed on the domestic consumer monopoly prices for almost every article he required."[205]

As Ireland had been laid waste by mercantilist economic policies in the seventeenth and eighteenth centuries, so was India to be ravaged by liberal economic policies often indistinguishable in their rapacity from their mercantilist predecessors.

Asked by a select committee if he had ever contemplated the effects of commerce in the Western world "the share it has had in softening the despotisms. . . and enlightening the state of European society generally," veteran Indian administrator Sir Thomas Munro reported that he had "seen and observed that the effect of commerce has been that of very greatly tending to the enlightening of most of the nations of Europe." Asked by the chairman if he believed that free enterprise would have "a gradual effect on the manners and prejudices of the Indians," Sir Thomas shot back that "commerce does not seem to have produced much effect on them."

That economic liberalism was a "civilizing and Christian" force was a deeply encrusted fetish of Lancashire's economic baronage and nowhere do the taboos and fanaticism of the liberal outlook emerge more fiercely than in the proceedings of the 1840 Select Committee.

The pungent dialogue between Brocklehurst, a lobbyist of the Macclesfield silk industry and Martin is symptomatic.

> MR. BROCKLEHURST: The fact being that weavers, either in the one country or the other, must be sacrificed, and that the sacrifice has already taken place in India, you wish to revive the population of India at the expense of this country?
>
> DR. MARTIN: I do not wish to revive it, but I wish to prevent continued injury to India. But it does not necessarily follow that the weavers of England would be destroyed by admitting the natives of India to compete with them in this country, because the natives of India have no power-looms, and no means of employing skill and capital to the extent that the manufacturers of Glasgow, Paisley and Manchester have.[206]

MR. BROCKLEHURST: The questions that have been asked refer entirely to fine fabrics which cannot be woven by power. The question is, whether we are to give up fine weaving in this country or to retain it?

DR. MARTIN: If it is only to be retained at the expense of injustice to India, my answer is, that England ought to act with justice, no matter what the result may be. That England has no right to destroy the people of a country which she has conquered, for the benefit of herself. . . .[207]

MR. BROCKLEHURST: When the transfer of India to the Government of this country took place. . . the destruction of weaving in India had already taken place, and therefore, it is not a question of destruction, for that is past; and we have evidence that India is an agricultural rather than a manufacturing country . . . .

DR. MARTIN: I do not agree that India is an agricultural country. India is as much a manufacturing country as an agricultural country; and he who would seek to reduce her to the position of an agricultural farm of England is committing an injustice; she is a manufacturing country, her manufactures of various descriptions have existed for ages, and have never been able to be competed with by any nation wherever fair play has been given to them. . . . I do not speak of her Dacca muslins and her cashmere shawls, but of various articles which she has manufactured in a manner superior to any part of the world.[208]

Lancashire was in no mood to savour the logic or principles of Martin, Wingate, Bishop Heber and others. As far as Brocklehurst and the Macclesfied and Lancashire predators were concerned, Martin was a simple-minded visionary and trouble-maker ignorant of "the true principles of political economy" and the international division of labour; and until such time as he had assimilated first principles discussion was fruitless.

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205. W.E.H. Lecky, *A History of England in the Eighteenth Century*, London, 1892-1920, Vol. VII, pp. 255-66.

206. Question 3918

207. Question 3919

208. Question 3920

Despite his naiveté on the Burra Sahibs' barracuda ethics, Martin was conscious of the pull of historical forces for his knowledge of the Zollverein showed that he sympathised with the attitude of the Germans towards economic liberalism. After quoting a Zollverein publicist, he noted: "Now if India were a foreign state, she would adopt a similar course; but I trust the time is coming when England will see that it is for her interest to extend our commercial alliance with the people of India, who do not consume at this moment six-pence per head of our manufactures, and whose ability to consume them is only limited by our non-receipt of their products."

Similarly, Horace Wilson saw to what extent state power had been mobilised in the interests of British capitalists. "Had India been independent," argued Wilson, "she would have retaliated and would have imposed preventive duties upon British goods and thus preserved her own productive industry from annihilation. This act of self-defence was not permitted her; she was at the mercy of the foreigner, as a competitor with whom Great Britain could not have contended on equal terms."[209]

Notwithstanding the precipitous decline of Indian cotton manufactures after 1815, British cotton goods continued to flood India on payment of 3 1/2% *ad valorem* duty, while goods exported to Great Britain paid an *ad valorem* duty of 10%. "This supersession of the native for British manufactures," exclaimed Martin, "is often quoted as a splendid example of the triumph of British skill. It is a much stronger instance of English tyranny, and how India has been impoverished by the most vexatious system of customs duties imposed for the avowed object of favouring the mother country."

Discrepancy between duties paid by India and the occupant was even more flagrant in the case of silk. British silk goods entered Calcutta on payment of a 3 1/2% duty, whereas Indian silk goods had to pay a 20% import duty in Great Britain. It was urged by witness Larpente that, given British productivity, import duties could be cut considerably.

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209. In Sir Henry Cotton, *New India*, London, 1904, p. 89. Wilson was a friend and collaborator of James Mill and wrote the ending to the latter's *History of British India*, 9 Vols., London, 1840-1846.

MR. BROCKLEHURST: You give your opinion without reference to the effect it would have on British produce?[210]

MR. LARPENTE: I have no doubt that it would be, to a certain extent, a rivalry in competition with the silk manufactures; but I submit on principle that India ought to be admitted as one of our own possessions. . . .

MR. BROCKLEHURST: Is there any colony of this country whose manufactures are admitted on so low a scale as those of India?[211]

MR. LARPENTE: There is no colony of this country whose manufactures are of a magnitude calling for it. We have destroyed the manufactures of India.

As with Martin's observations, this stolid Victorian tetrarch remained unmoved; it was also obvious that he was ignorant of important details.

MR. BROCKLEHURST: Are you aware that they have already so far displaced handkerchiefs made in this country, that attempts are now being made to introduce a spurious article from waste silk as a substitute?[212]

MR. LARPENTE: I have heard that an article has been introduced made of waste silk; and that as I stated before, the ingenuity and science of the parties who are making those goods will probably introduce into the home market a quantity of goods at a low price, which will be in very general use.

MR. BROCKLEHURST: Driving the British manufacturer to make inferior articles?[213]

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210. Question 2750

211. Question 1751

212. Question 2763

213. Question 2764

MR. LARPENTE: The articles alluded to are those made there. It is the British manufacturers who have made those inferior articles.

MR. BROCKLEHURST: It would be more desirable perhaps that India should produce the raw material, and this country show its skill in perfecting that raw material.

MR. LARPENTE: The course of things in India is decidedly leading to that; and it is in the main articles such as we have already alluded to. . . but I submit that as silk is the last of the expiring manufactures of India . . . let it have a fair chance, and not be oppressed with the duty of 20% in favour of British manufactures.[214]

The amiable confrontation of Brocklehursst and Cope, another Macclesfield capitalist, is instructive. The same refurbished rationalisations that were used to garrot Indian textiles would be used against Japan seventy years later.

MR. BROCKLEHURST: What would be the effect this branch of your trade if the present duty on Indian silk were reduced from 20 to 3 1/2%; and what reason can you show why that should be the case?

MR. COPE: In my opinion it would have the effect of destroying this branch of our trade . . . . It would throw out of employment a large amount of capital, and would give into the hands of foreigners that employment by which we ought to be supported; for we thus reason, that it with all our improvements in machinery, and all our superior skill and industry, we can just keep the possession of our own market, we conclude that, if the duty be reduced any at all, we shall lose our trade.[215]

Extermination of Indian industries is best seen by comparative tariff rates for 1812, 1824, and 1832.[217]

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214. Question 2771

215. Question 6483

216. R.C. Dutt, *Early British Rule*, 1903, p. 264.

TABLE 4. *Comparative Tariff Rates 1812-1832*

ARTICLE	YEAR		
	1812	1824	1832
		(% of value)	
Ornamental cane work	71	50	30
Muslins	27.5	37.5	10
Calicoes	71.66	67.5	10
Other cotton manufactures	27.33	50	20
Wollen shawls	71	67.5	30
Lacquered ware	71	62.5	30
Mats	68.5	50	20
Raw silk	£2-4-4 (per lb.)	4 (per lb.)	- (per lb.)
Silk manufactures	Prohibited	Prohibited	20
Taffetas or other plain or decorated silks	Prohibited	Prohibited	30

Source: R.C. Dutt, *Early British Rule*, London, 1903, p. 264.

The year the Committee met, the liberal Merivale was delivering his famous *Lectures on Colonisation* at Oxford. "British policy of colonial enlightenment stands in contrast to that of our ancestors," who cared little "about the internal government of their colonies, and kept them in subjection in order to derive certain supposed commercial advantages from them," whereas "we give them commercial advantages, and tax ourselves for their benefit, in order to give them an interest in remaining under our supremacy, that we may have the pleasure of governing them."[217]

Was a publicist of Merivale's stature oblivious to the changes proceeding in India at the time of his lectures — changes which had already transformed that country into a groaning colonial slum and a source of raw materials for the Imperial economy?

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217. H. Merivale, *Lectures on Colonisation and Colonies*, 1840, Oxford University Press, 1928, p. 78.

Pares may have supplied the clue: "Transformation of the economic relations between England and India in the nineteenth century throws light on the nature of free trade imperialism," he wrote. Although few saw "that the final result might be the transformation of India from a manufacturing to a raw material area, *most Englishmen saw nothing to regret in this* . . . ."[218] Tragedy rippled in the wake of such policies.

"British legislation," wrote Frederick Shore, "cramped her energies" by a sordid system of misrule to which the interests of the millions has been sacrificed for the benefit of the few." Underlining the crux of this legislation, he warned that "if this be continued much longer, India will, before long, produce nothing but food just sufficient for the population, a few coarse earthenware pots . . . and a few coarse cloths."[219]

That such was to be the ultimate upshot of economic policy directives was no concern to the liberal fanatics and hence even the paltriest reformist measures received short shrift.

"We are often told," remarked Sir John Strachey in 1877, "that it is the duty of the Government of Indian to think of Indian interests alone, and that if the interests of Manchester suffer, it is no affair of ours. For my part I utterly repudiate such doctrines. I have not ceased to be an Englishman because I have passed the greater part of my life in India, and have become a member of the Indian Government. The interests of Manchester at which foolish people sneer are the interests not only of the great and intelligent population engaged directly in the trade in cotton but of millions of Englishmen. I am not ashamed to say that . . . there is no higher

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218. R. Pares, "Investment and the Positive Theory of Empire," *Economic History Review*, Vol. IX, 1938-1939, p. 134. Also the same author, "The Economic Factors in the History of the Empire," *Economic History Review*, May 1937. It would be no digression to observe that notwithstanding the fact that most Englishmen saw nothing to regret in this transformation, the attitude of the Chartists on the Colonial question was clear-cut: "They, your masters, will take the land—they will fill all the higher situations, civil and military, of the new colonies—your share will be the slaughter of the combat and the cost of winning and retaining the conquest. The actual settlers on and cultivators of the soil, these are the rightful sovereigns of the soil, and should be at perfect liberty to choose their own form of government and their own institutions." *Northern Star*, 7 March 1846.

219. *Notes on Indian Affairs*, London, 1837, Vol. II, p. 28.

duty in my estimation than that which I owe to my own country."[220] Love of empire as part of a divinely inspired sanction was eloquently put by Gladstone: "The sentiment of Empire," he wrote, "is innate in every Briton. It is part of our patrimony, born with our birth and dying only with our death."

Such was the blinkered vision of liberal England. As such it could hardly receive the plaudits of the captive peoples. "What was the gain of Europe in general and of England in particular was India's loss," wrote Kumarappa. "It was to be expected that England should feather her nest, and she did it very well."[221]

The vulturous voracity of the empire builders titillated the conscience of that ideologue of the *ancien régime*, Edmund Burke: "The arts of plunder might have been supposed to have reached their height under the command of Lord Clive, but when that nobleman returned to Europe, it appeared that he left an abundant crop of successors behind. All these too were inured to the practices of rapine, and encouraged to such a degree by repeated successes, that there was not a captain of a band of ragged sepoys who did not look to the deposition of a Subah, and the plunder of a province."

Partnering this awesome transformation of the sub-continent went another equally portentous, the emergence of what Hitler's theorists were later to baptise as the doctrine of the *Herrenvolk* as practised by the White colonial burra sahibs and bwanas, effendis, tuans and taipans. Had not Hastings described the Indian as belonging to a sub-human species?

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220. *Financial Statement*, 15 March 1877, in P. Padmanabha Pillai, *Economic Conditions in India*, London, 1925, p. 41! The reasons for Sir John's outbursts was the 5% duty on manufactured cotton goods from Lancashire which was considered, not as a protective measure, but merely as a source of revenue. In 1877 the House of Commons passed a motion recommending its removal. This aroused the departmental anger of the India House authorities who protested against any suggestion that pressure be put on them in the interests of Lancashire. The duty was removed. Cf. E. Thompson and G.T. Garratt, *Rise and Fulfilment of British Rule in India*, London, 1934, p. 494; also S.D. Mehta, *The Cotton Mills of India*, 1854-1954, Bombay, 1954.

221. J.C. Kumarappa, *Public Finance and Our Poverty*, preface by M.K. Gandhi, Ahmedabad, 1948, p. 61.

> "The Hindu appears a being nearly limited to mere animal functions and even in them indifferent. Their proficiency and skill in the several lines of occupation to which they are restricted, are little more than the dexterity which any animal with similar conformation but with no higher intellect than a dog, an elephant, or a monkey, might be supposed to be capable of attaining. It is enough to see this in order to have full conviction that such a people can at no period have been more advanced in civil policy."[222]

Summarising the code of the master race Sir Thomas Munro, in a letter to Hastings in 1818 noted: "Foreign conquerors have treated the natives with violence and often with great cruelty, but none has treated them with so much scorn as we; none has stigmatised the whole people as unworthy of trust, as incapable of honesty, and as fit to be employed only when we cannot do without them."[223]

Without going into the moral implications of racism, it is worth noting that it was hardly conducive to harnessing that vast untapped human and material potential which is a prerequisite for economic development.[224] But such policies, and conditioned patterns of behaviour were *necessary*, for racism was nothing more than a rationale on the part of a foreign occupant for the exploitation not only of Indians but of all colonial peoples, including the Irish!

The desired transformation was now complete.[225]

But while Indian "manufactures" had been destroyed, there was nothing to fill the vacuum as in Britain, by the large-scale development of modern industry.

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222. T.G.P. Spear, *The Nabobs*, London, 1939, p. 201.

223. *Cf.* G.R. Gleig, *Life of Sir Thomas Munro*, 3 vols., London, 1830, Vol. I, pp. 269-70. Also Earl of Ronaldshay, *The Life of Lord Curzon*, Vol. I, p. 309, and the speech of Curzon to British planters in B. C. Pal, *The New Economic Menace to India*, 1925, p. 80.

224. *Cf.* Gunnar Myrdal, *The International Economy*, New York, 1955, p. 101. For the sociological implications of racism in British India, cf. the novel of E. M. Forster, *A Passage to India*, London, 1926, and George Orwell's *Burmese Days*, London, 1934.

225. *op. cit.*, p. 750.

TABLE 5. *Imports into England from India: 1833-1844*

	UNIT	1833	1843	1844
Hides	cwt.	29,337	108,487	
Hemp	cwt.	34,000	227,812	
Linseed	bushels	2,163	64,024	237,960
Cotton	mill. lbs.	32	65	88.6
Sheep's wool	lbs.	3,721	1,916,129	2,765,853
Rice	cwt.	179,370	364,689	396,758
Saltpetre	cwt.	143,434	454,822	
Coffee	mill. lbs.	5.7	13.8	19.4
Cotton goods	pieces	290,333	103,097	63,805

Source: R.C. Dutt, *op. cit.*

In Britain the industrial birth pangs were basically transitional, once the level of industrialisation and the trade union movement had reached a certain level of maturity. Whereas the British artisan was remoulded into a factory "hand" and the accompanying enclosure movement led to a rural exodus[226] whose numbers fed the urban proletariat, in India the wholesale extermination of the domestic workshop led to an *urban* exodus. Similarly, comprehensive institutional changes of the Cornwallis administration consolidated the forces of a parasitical landlordism.

The country which had manufactured and exported the finest muslins and other luxury fabrics and articles at a time when "our ancestors" were at a primitive level failed "to take part in the economic revolution initiated by the descendants of these same wild barbarians," states Vera Anstey an

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226. *Cf.* the analysis of the creative effects of the enclosure movements in the following works: J.L. and Barbara Hammond, *The Village Labourer* (1760-1832), reprint 1949; W.H.R. Curtler, *The Enclosure and Redistribution of Our Land*, Oxford, 1920; W. Hasbach, *A History of he English Agricultural Labourer*, London, 1906; A. H. Johnson, *The Disappearance of the Small Landowner*, London, 1909, as well as Chapter III, "The Redistribution of the Land" in Mantoux, op. cit., pp. 140-90. Also the excellent essay of H.J. Habbakuk, "Economic Functions of English Landowners in the Seventeenth and Eighteenth Centuries," *Explorations in Entrepreneurial History*, Vol. V, December, 1953.

apologist of British rule in India. Differential progress there was, but the upshot of the occupation was that it served to flood India with cheap manufactured goods and create a demand on the world market for specialised Indian commodities.

In the second half of the nineteenth century, Indian exports were stepped up considerably, and the global impact of the occupation was that it certainly lent colour to the view that economic development had been arrested in India.[227]

Writing in the 1930's, Buchanan reached much the same conclusion. "In spite of her factories and her low standard of living, India is less nearly self-sufficient in manufactured products than she was a century ago."[228]

Not only had Indian industry been throttled, but in many cases liberal legislation was actually of a feudal vintage such as transit duties and internal customs.[229]

Social Relations of Agriculture

Wholesale extirpation of the Panchayat structure and manufacturing industry, in addition to the foisting of alien landed institutions on India left their impress on agriculture.

Whatever the ideological proclivities of British administrators like Cornwallis[230] and Bentinck[231] they were convinced that changes in

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227. Vera Anstey, *The Economic Development of India*, London, 1952, p. 5.

228. D.H. Buchanan, *The Development of Capitalist Enterprise in India*, New York, 1934, p. 451.

229. Sir Charles Trevelyan, *Report on Transit Duties* (1840). Imported cottons paid a duty of 2.5% in 1835; but the internal duties on home-made goods (totalling 135 items) were heavy. A 5% was imposed when raw cotton was brought from one district to another. If, after it had been manufactured into yarn, it was transported elsewhere, a further 7.5% was levied. When it was carried from the place where it was transformed into cloth, a further 2.5% became due. If the cloth was then dyed it would again pay another 2.5%; and thus the native manufacturer, before placing the finished goods on the market, might have had to pay a total duty of 17.5%. As P.P. Pillai puts it: "No better method cold have been devised for stifling the natural growth of industries and commerce," *Economic Conditions in India*, London, 1925, p. 21. For the Tariff history of India, see P. Bannerjee, *Fiscal Policy in India*, London, 1922, Chapters 2 and 3.

230. J. Aspinall, *Cornwallis in Bengal*, London, 1931.

agriculture along English lines would confer untold benefits on their Indian subjects. In a way, this approach was quite normal, since the British had before them the example of the technical strides that accompanied the enclosure movement embodied by such agricultural innovators as Jethro Tull, Bakewell, Turnip Townsend, lauded by such militant propagandists as Sinclair and Arthur Young.[232]

But while the administrators could make far-reaching changes in the social structure of agriculture, they could not equip the newly created class of Zemindars with traditions native to England, and totally absent even in Scotland or across the channel, in France.

Introduction of English landlordism, in modified form, was the first type of land settlement attempted by the occupant.[233] This came to be known as the *Permanent Zemindari Settlement*, embracing 20% of British India covering the major part of Bengal, Bihar and Orissa, later extended to parts of northern Madras. Existing Zemindars, in reality tax-farmers, or officials appointed by the previous rulers to collect land revenue on a commission basis (the authorised commission being $3^1/_2\%$), were made landlords in perpetuity. This was subject to a fixed payment to the Government, calculated at the time at the rate of ten-elevenths of the existing total payments of the cultivators, the remaining one-eleventh being left as the landlord's share.

The tenant had no recourse to British "justice." As Abhay Charan Das pointed out in his work on the Permanent Settlement in 1881: the regulation of 1812 known as the Panjam stipulated that "if any ryot should only, and without due cause, summon or cause to be summoned, before the courts of justice, the chief of the subordinate officers of the Zamindars employed in collecting the rents, as witnesses, he should be liable to an action for damages for costs; and that all ryots, who should prefer litigious or groundless complaints against the Zamindar should be punished by fine and imprisonment."

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231. B. Disraeli, *Life of William Bentinck*, Vols. I and II, London, 1861.

232. R.E. Prothero, *English Farming, Past and Present*, London, 1922.

233. *Report of the Bengal Revenue Commission*, 1940, Vol. III, p. 103. An important work on the "Permanent Settlement" is that of S. Gopal, *The Permanent Settlement in Bengal and Its Results*, London, 1949.

Cornwallis's Permanent Settlement," however, was more than an "administrative" measure "destined to naturalise the landed institutions of England among the natives of Bengal."

Lord William Bentinck, Governor-General of India from 1828 to 1835, described it with exemplary lucidity as being an effective bulwark against social revolution, since it created a class of quislings vitally interested in the perpetuation of the occupation.[234]

"If security was wanting against popular tumult or revolution," he wrote, "I should say that the 'Permanent Settlement,' though a failure in many other respects and in most important essentials, has this great advantage, at least, of having created a vast body of rich landed proprietors deeply interested in the continuance of the British Dominion and having complete command over the mass of the people."[235]

In practice, the Zemindari system afforded a spectacle of sprawling inefficiency, corruption, and parasitism. "In the permanently and temporarily settled areas the Zemindar's share was allowed to grow. He was allowed to extort as much as he could by way of rent, so that by vesting the Zemindar with all residuary property rights, the Government exalted their status and ensured a continuous improvement in their condition."[236] The sum total of these effects, in the words of a Lieutenant-Governor of Bengal, was that "in the interval of 66 years, that is between 1793 and 1859, while the proprietary body gained in strength and prospered in wealth, village communities perished."[237]

Another facet of Zemindari agriculture was that a shoal of intermediaries proliferated between the cultivating tenant and the Zemindars, due

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234. A quisling economic force had been created on which the occupation forces could politically rely. The anguished cry of Governor Robertson in 1842 showed the politico-strategic importance of having an intermediary. "It is a fearful experiment, that of trying to govern without the aid of any intermediate agency of Indigenous growth." The Zemindari, in effect, became the principal agencies of this rule.

235. Speech, 8 November 1829, *Speeches and Documents on Indian Policy 1750-1921*, Vol. I, p. 215, A.B. Keith.

236. S. Gopal, *op. cit.*, p. 25.

237. *Cf.* H. D. Malawiya, *Land Reforms in India*, New Delhi, 1954, p. 123.

to the widespread practice of sub-letting, subdivision and fragmentation. On the latter, the *Simon Report* noted that "in some district the sub-infeudation process has grown to astonishing proportions, as many as 50 or more intermediary interests having been created between the Zemindars at the top and the cultivator at the bottom."[238]

"The Zemindar," wrote R. Mukerjee, "need not part with his estate by an absolute sale, but can raise money by allowing his proprietary rights to be subdivided into small estates of minor value; he still retains his status and receives an annuity that leaves him enough for his payment of government revenue. Inferior tenure holders follow the same practice, with the result that middlemen after middlemen spring up who have no interest in the land . . . ."[239]

Arthur Young's simple truth had been forgotten: "Give a man the secure possession of a bleak rock, and he will turn it into a garden: give him a nine years' lease of a garden, and he will convert it into a desert: the magic of property turns sand to gold."[240]

And so, while British occupation of India pushed agriculture into new lines, this growth, due to the status of India, did not lead to prosperity.

In advanced capitalist countries the technical basis of agriculture has become increasingly mechanised.[241] Primitive agricultural technology surrenders to the tractor, the thresher, the harvester, chemical fertilisers, mechanical aids, scientific seed selection — in a word to the application of applied science to agriculture, or what accurately, though paradoxically, may be termed the industrialisation of agriculture.

When someone suggested the use of fertilisers to Lord Mayo in 1870, he received the sarcastic retort: "I do not know what is precisely meant by ammoniac manure. If it means guano, super-phosphate or any other

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238. *Report of the Indian Statutory Commission (Simon Report)*, Vol. I, p. 340. On the problem of land pressure, *cf.* Sir William Hunter, *The India of the Queen and Other Essays*, London, 1903.

239. *Land Problems in India*, Calcutta, 1933, p. 90; cf. also the same author's *Economic Problems of Modern India*, Vols. I and II, London, 1939.

240. *Cf. Life of John Stuart Mill, op. cit.*, p. 299.

241. Pei-kang Chang, *Agriculture and Industrialization*, Harvard University Press, 1949.

artificial product of that kind, we might as well ask the people of India to manure their soil with champagne."[242]

Scientific agriculture was incompatible with the Zemindari system. Describing the impoverishment of the Indian ryot, the *Linlithgow Report* stated:

Far more common in every province is the extensive acquisition of landholder's rights by money-lenders and other capitalists. The transfer too often reduced the status of the ancestral holder to that of a tenant. There would be less objection to this if it resulted in the investment of any considerable sum in land improvement, but this seldom happens. The new landlord is, as a rule, inclined to rest satisfied with his acquisition. . . and looks only to the rent he can collect. The complaint that the larger landlords do little for the development of their estates on modern scientific lines is a very general one and the honourable exceptions to be found in every province are too few in number to do more than throw into relief the apathy of the majority.[243]

Ruined by the influx of machine-made goods, the bulk of Indian artisans, were not absorbed in any indigenous industries and turned back to the land for subsistence; but the size of the rural debt grew with agrarian overpopulation and the economic collapse of the country. "It is acknowledged," Sir Edwin Maclagan declared in 1919 that "indebtedness has risen considerably during our rule, and more especially during the last half century. The reports received from time to time, and the evidence of annual sale and mortgage data show clearly that there has been a very considerable increase of debt during the last half century."[244]

Noting with alarm the mushrooming of tenants-at-will the 1880 Famine Commission reported: "The tenants-at-will form a large and increasing class, the growth of which in some parts of India cannot be looked on without serious misapprehension. They are kept in a situation of absolute

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242. Pillai, *op. cit.*, p. 267.

243. *Report on the Royal Commission on Agriculture in India* (Cmd. 3132), London, 1928, p. 425.

244. *Cf.* also the statement by Captain Wise in a report on Khandesh Bhils, 1874: "Before the country came under us, no sowkar, guzar, etc. could have dared to treat the Bhil as they do now, but these people take advantage of our rule to oppress and make slaves of those they formerly feared." Quoted in *Report of the Congress Agrarian Committee*, New Delhi, 1951, p. 85.

dependence on the landlord, which takes away the desire to improve the land, or to raise their own position, or to lay by anything from the profits of agriculture. The soil, therefore, is not unlikely under such tenants to become year by year less productive; and the tenant having neither credit nor stores to fall back upon becomes a prey to the first approach of famine."

Rack renting became generalised. "Rents," declared a British official, "are regulated by competition, by the pressure of population on a limited area. Under the so-called freedom of contract, rack-renting is a question of supply and demand; as the supply is a fixed, limited quantity incapable of expansion and the demand is ever-increasing and is illimitable. Rack-renting is a matter of time."

Wholly responsible for this rapacity was the occupant's concept of proprietorship as the 1880 Famine Commission admitted: "While the theory was that all existing rights should receive equal attention, and while the benefit likely to accrue to the cultivator's was avowedly one of the principal objects of the settlement made for long period, there grew up a generally exaggerated estimate of the proprietary rights of the landlords, and the corresponding depreciation of the tenant's position. English ideas of proprietorship were allowed to obscure the important limitations to which, in India, proprietorship was subject, and the tendency arose for the landlord to become an absolute owner, and the cultivator a rack-rented tenant at competition rent."

Commenting on the growth of a class of tenant-at-will the commissioners noted that they were kept in a "situation of absolute dependence on the landlord, which takes away the desire to improve the land, or to raise their own position, or to lay by anything from agriculture. The soil, therefore, is not unlikely under such tenants to become year by year less productive; and the tenant having neither credit nor stores to fall back upon becomes a prey to the first approach of famine."

The Mahajan became a symbol of fear and death.[245] "Famine," wrote Andre Philip, "is not always the result of an insufficient harvest, but

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245. The parasitic role of the moneylender had become a normal feature of agriculture. *Cf.* L.C. Jain, *Indigenous Banking in India*, 1929; P.J. Thomas. Rural Indebtedness, Chapter IV in Economic Problems of Modern India; M.L. Darling, *The Punjab Peasant in Prosperity and Debt*, Oxford University Press, 1925; *Linlithgow Report, op. cit.*, p. 421.

rather of an insufficiency remaining to the farmer, after the tax-collector, the landlord and the usurer have taken their share."[246] This generalisation, applicable to all Asian countries, is strikingly true of India and China.[247] Vaughan Nash, writing at turn of century, was convinced, during his stay in Bombay, "that the authorities regarded the money-lender as their mainstay for the payment of revenue."[248] And Darling, describing the plight of the Punjabi peasantry, declared: "The cultivator sows that another may reap, and toils that his creditor may gain."[249]

Mass peasant revolts subsequently crushed by the occupant were the offshoot of such orgies of exploitation. "In their sporadic outbursts of anger," writes Patel, "Indian peasants pounced upon the money-lenders and physically tore them to pieces." Describing the Santhal rebellion of 1854, O'Malley, District Gazetteer of the Santhal Parganas recorded that "when a Mahajan fell into their hands, they first cut off his feet with their

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246. Quoted in Josué de Castro, *The Geography of Hunger*, with a preface by Sir John Boyd-Orr, London, 1950, p. 156. An ILO report declared, on the subject: "In 1929 it was estimated that the total rural indebtedness for the Indian provinces was in the neighbourhood of 9,000 million rupees. This indebtedness was not only exceedingly large, but was rapidly increasing." *Cf.* International Labour Organisation, Preparatory Asian Regional Conference, *The Economic Background of Social Policy*, New Delhi, 1947.

247. *Cf.* H. Jacoby, *Agrarian Unrest in Southeast Asia*, Columbia University Press, 1948, pp. 146-7. Owen Lattimore develops the notion of "Asian paradoxes," i.e. the occurrence of famines in the most prosperous agrarian areas. "This paradox," he writes, "consists in the fact that in Asia the place to look for perennial malnutrition, frequently reaching the degree of semi-starvation, is in the districts which produce the most food per acre. The explanation lies in the following conditions: the surplus population makes labour so cheap that the landlord prefers human labour to mechanization, because mechanization requires investment of working capital, while human labour, which is sufficiently defenceless, provides a yearly grain tribute without capital investment except in the purchase of land. On the other hand, intensive application of human labour to the growing of food means so many mouths to be fed that if the working farmer were to eat his fill, there would be little or no surplus. The landlord therefore makes tenant compete against tenant to see which will offer him the highest rent in grain. The successful tenant eventually finds that he cannot grow enough food and eat enough food." Inner Asian Frontiers," *Journal of Economic History*, Vol. III, May 1947.

248. *The Great Famine*, London, 1900, p. 27.

249. M.L. Darling, *The Punjab Peasant in Prosperity and Debt*, Oxford University Press, 1925, p. 280. Also the remarks of A. Balfour and H. Scott, *Health Problems of the Empire*, London, 1924, p. 136.

axes with the taunt that there was four annas in the rupee; then they cut off his legs at the thigh to make up eight annas; then cut him in two at his waist to make up twelve annas and finally took of his head to complete the sixteen annas, shouting 'pharakhti' — that is full quittance."

Panchayat solidarity had been a powerful bulwark against the accumulation of debt and land alienation; and customs like Dandupat had restrained the appetites of the usurer. However, with the establishment of a centralised system by the occupant, "the village community decayed and all laws and customs that kept down debt fell into desuetude."[250]

In Burma, a part of the Indian empire until 1937, usurial parasitism was omnipresent. The crisis-ridden years of the thirties — and the absence of state interventionism — hastened the Chettyars' grip on the peasantry. When the amount of accumulated interest exceeded the value of the mortgaged land they foreclosed. During this decade more and more land passed into the hands of the dreaded Chettyars.

TABLE 6. *Trends in Land Ownership, 1930-1937**

	TOTAL AREA OF OCCUPIED LAND (IN MILLIONS OF ACRES)	% OF THE LAND OCCUPIED BY NON-AGRICULTURISTS	OCCUPIED BY CHETTYARS (AS % OF TOTAL)
1930	9,249	19	9
1931	9,305	25	9
1932	9,246	36	15
1933	9,266	43	19
1934	9,335	47	22
1935	9,408	49	24
1936	9,499	49	25
1937	9,650	50	25

* These figures deal with the 13 most important rice districts, and were originally published in the Land and Agriculture Committee Report, Part Two, "Land Alienation," 1938, quoted in J. Russell Andrus, *Burmese Economic Life*, Stanford University Press, 1947, p. 70.

250. Mukerjee, *op. cit.*, Vol. I, p. 173.

By 1938, a quarter of the best rice lands in Lower Burma had been swallowed up by this social group.

This change in landed social relations was the most specific feature generated by the occupation.

Cash Crops

Emphasis on cash crops, the concomitant of a plantation economy, had slave labour as its corollary. Describing the "personnel selection" techniques of the planters in Assam in 1867, Nassau Lees writes: "False representation, corruption and oppression. . . were used to swell the numbers of the contractor's recruits. The old and the decrepit, the young and the tender, the halt, the maimed and the blind—nay, even the infected, the diseased and the dying — were pressed into service. . . . With some truth it may be said that the horrors of the slave trade pale before the horrors of the collie trade of Assam and Cachar in the years 1861-62." This form of slave labour was not limited geographically to one specific region. Slave labour was an integral part of the labour recruitment policies of the occupant.[251]

Absenteeism, the non-existence of an indigenous bourgeoisie, the oppression of a mass of men without rights — all these antisocial factors, asserted the French geographer Leroy Beaulieu, conspired to give European establishments in the tropics a sad and pitiful character.[252]

Cash crop trends became more marked with the advent of the twentieth century. Writing in 1937, the agronomist Sir John Russell maintained

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251. Take the case of indigo (later to be ousted by synthetic aniline dyes subsequent to Bayer's discoveries at the end of the nineteenth century). After 1858 Canning made the acquisition of land easy for Europeans in the hope of getting them to settle down in milder climates and building up large-scale plantations. In Assam and the Nilgiris this process led to enormous plantation colonies. European indigo planters had been imported from the West Indies, and settled in Bihar. They obtained their raw materials by advancing money to cultivators and gradually getting them completely under their control. As the official *Indigo Commission Report* declared: "It matters little whether the ryot took his original advance with reluctance or cheerfulness: the result is the same. He is never afterwards a free man." *Bengal Indigo Commission Report*, 1861, p. 25. Indeed, conditions amounting to slavery were re-established in the plantation areas by the planters with the acquiescence of the Government. *Cf.* E. Thompson and G.T. Garratt, *Rise and Fulfilment of British Rule in India*, London, 1934, p. 474.

252. J. de Castro, *op. cit.*, p. 179.

that "the areas under cotton, sugar-cane and wheat have risen, corresponding with the increased area under irrigation, and the increase has kept pace with the increase in population. On the other hand, the acreage under food crops show much less rise, and, if the figures can be accepted, the acreage per head of population has actually fallen."[253] This trend was further accelerated "by the interest of Government Department of Agricultural Research and Experimental Farms in improving the quality and introducing new varieties of cash crops, while food crops were neglected."[254]

Blyn's statistical findings corroborate this view.

TABLE 7. *All-India Estimate of Gross Food Production 1893-94 to 1945-46*

YEARS	AVERAGE ANNUAL PRODUCTION (MILLION TONS)
1893-94 to 1895-96	73.9
1896-97 to 1905-06	71.5
1906-07 to 1915-16	74.0
1916-17 to 1925-26	73.3
1926-27 to 1935-36	69.6
1936-37 to 1945-46	69.3

Source: George Blyn, *The Agricultural Crops of India, 1893-94 to 1945-46, A Statistical Study of Output and Trends*, Philadelphia, 1951 p. 14.

The British could have been expected to bring benefits to Indian agriculture, asserts Josué de Castro, "but they never did." It is true, he continues, that they developed a really magnificent plan for expansion and brought a desert estimated at 20 million acres under cultivation by means

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253. *Report by the Imperial Council on Agriculture Research*, New Delhi, 1937, p. 5.

254. P. Wadia and K. Merchant, *Our Economic Problem*, Bombay, 1954, pp. 179-80. The accent on cash crops was to have other effects, especially when the basis of Indian agriculture remained on a technically primitive level— namely, the exhaustion of the nitrogenous contents of the soil, with a concomitant fall in agricultural yields. *Cf. The Bengal Provincial Banking Committee*, 1930, pp. 31-2. Also Sir John Russell, *op. cit.*, p. 24.

of irrigation. "There is only one thing to be said against this vast agricultural programme; it did not affect the food supply of the people. Its benefits went exclusively to cash crops for export."[253]

The following table illustrates the conversion of food crop areas into specialised commercial crop areas.

TABLE 8. *All-India Estimates of Food Crop, Commercial Crop and Total Crop Production, 1893-94 to 1945-46*

YEARS	INDEX OF AVERAGE ANNUAL CROP OUTPUT			NON-FOOD TO FOOD CROP OUTPUT RATIO
	FOOD	COMMERCIAL	TOTAL	
1893-94 to 1895-96	100	100	100	.22
1896-97 to 1905-06	96	105	98	.24
1906-07 to 1915-16	99	126	104	.28
1916-17 to 1925-26	98	142	106	.32
1926-27 to 1935-36	94	171	108	.41
1936-37 to 1945-46	93	185	110	.44

Source: George Blyn, *The Agricultural Crops of India*, 1893-94 to 1945-46. *A Statistical Study of Output and Trends*, Philadelphia, 1951. The indexes are based upon aggregates weighted by the average price of cash crops for the period 1924-25 to 1928-29, p. 117.

The systematic destruction of Indian manufactures; the creation of the Zemindari and its parasitical outgrowths; the changes in agrarian structure; the financial losses incurred by tribute; the sharp transition from a pre-monetised economy to one governed by the international price mechanism — these were some of the social and institutional forces that were to bring the apocalypse of death and famine to millions — with few or no compensatory benefits to the ryot.

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255. J. de Castro, *op. cit.*, p. 159; also A.V. Raman Rao, *The Economic Development of Andhra Pradesh*, 1766-1957, Bombay, 1958. A major contribution to Indian economic history

Ninety years separated Burke's gory indictment of the East India Company and the *Royal Commission Famine Report* of 1880.[256]

"Do you think that no reckoning was to follow this lewd debauch? That no payment was to be demanded for this riot of public drunkenness and national prostitution?" thundered Burke as the trial of Warren Hastings.

To be sure payment was to be made by the Indian people and the price was death to the tune of millions. At the end of every famine Royal Commissions were duly set up to "enquire" into the "causes" of these man-made catastrophes.

After the widespread famine of 1877-1878, with its nine million victims, a Royal Commission was appointed to enquire "how far it is possible for Government by its action, to diminish the severity of famines, or to place the people in a better position for enduring them." Notwithstanding its sober pedestrian prose, the central thesis of the Report embody a striking modern formula.

"At the root of much of the poverty of the people of India and of the risks to which they are exposed in seasons of scarcity, lies the unfortunate circumstance that agriculture forms almost the sole occupation of the masses of the people, and that no remedy for present evils can be complete which *does not include the introduction of a diversification of occupation, through which the surplus population may be drawn from agricultural pursuits and led to find the means of subsistence in manufactures. . . .*"[257] (Italics mine).

Diversification and industrialisation were advanced not as panaceas but as cold imperatives. This was to be the pioneer Royal Commission monograph on famines in India, establishing the general pattern followed in subsequent decades.

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256. All Reports by Royal Famine Commissions contain invaluable information. The two most authoritative works on the subject for the pre-1914 period are: A Loveday, *The History and Economics of Indian Famines*, London, 1914, which contains a good bibliography. Romesh Dutt, *Famines and Land Assessments in India*, London, 1900.

257. Vol. I, p. 34.

It was a bold and honest recognition that Indian economic problems were not ascribable to some Malthusian *diabolus ex machina* but rather to the absence of industrialisation.[258]

Today's Malthusians entirely neglect the selective application of new agricultural techniques to cash crops and the barriers placed in the way of industrialisation which made it impossible for India to solve her demographic problem in the manner in which it has been accomplished in Western Europe and North America.

According to the Malthusian Vogt, the occupant is indictable, not for those reasons but because he removed the checks which had previously limited population growth, namely "medicine," "sanitation," "irrigation works," etc.[259]

However, the case is lucidly put by de Castro, President of the Brazilian Government's Nutrition Service and former Director-General of FAO: "Misery exists in India neither because the nation is overrun with people nor because her soil is saturated. The true causes have to do with inadequate exploitation of resources both natural and human, and with the extremely adverse effects of the British Colonial System."[260] And Naoroji humorously commented, at the turn of the century, that the myth of overpopulation "was adding a distressful insult to agonising injury. To talk of overpopulation at present is just as reasonable as to cut off a man's

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258. *Cf.* the following studies for an objective appraisal of the impact of industrialisation on demographic trends: Frank Notestein, "Economic problems of Population Change," *in Proceedings of the Eighth International Conference of Agricultural Economistis*, London, 1953. Also A. J. Coale and E.M. Hoover, *Population Growth and Economic Development in Low Income Countries: A Case Study of India's Prospects*, Madras, 1959; Alfred Sauvy, *Théorie Générale de la population*, Vol. I, Economie et Population, Chapter XVIII, Paris, 1952..

259. *Road to Survival*, New York, 1950, p. 256. Ibid, p. 26. *Cf.* also in the same context the volume of Robert C. Cook, *Human Fertility: The Modern Dilemma*, New York, 1951, pp. 62-3. "On a global scale," comments this author, "the disaster foreseen by Thomas Malthus is at hand." p. 296. for an adequate corrective to these extremist's views, cf. R.L. Meir, *Modern Science and the Human Fertility Problem*, New York, 1959.

260. *op. cit.*, p. 154. For an informed discussion on this subject, cf. the monograph by Jacob Oser, *Must Men Starve*? New York, 1957; and the excellent work of J.D. Bernal, *World Without War*, London, 1958.

hands and then taunt him that he was not able to maintain himself or move his hands."[261]

Those who parade the Malthusian scarecrow might remember that Japanese density per square mile of arable land in 1870 was 1,500 a figure well above the 1940 figure of 602 in British India.[262] The following table illustrates the degree of Indian land use.

TABLE 9. *Indian Land Use, 1936-1939*
(millions of acres)

Total area surveyed	660
Not available for cultivation	121
Forests areas	88
Available for cultivation	451
Uncultivated	112*
Fallow	59
Sown once a year	224
Sown twice a year	36

Source: C.N. Vakil, *The Economic Consequences of a Divided India*, Bombay, 1950, p. 153.
* Susceptible to cultivation if cleared, irrigated.

The potentially large hydro-electric resources of India remained untapped (although a slight beginning had been made under the occupation). Indeed, the reason why land resources were not more intensively utilised was partially due to the huge expenditures involved in jungle-clearing, road construction, anti-malarial campaigns, terracing and contouring the land, and perhaps most important of all, as the Fiscal Commission (1949) recognised, the supply of irrigation water. India, with a hydro-electric potential of 30-40 millions kilowatts, had an installed hydro-electric capacity of 0.5 million kilowatts compared to Switzerland's 2.4 million.

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261. *Poverty and Un-British Rule in India*, London, 1901, pp. 216-17.

262. Kingsley Davis, *Population of India and Pakistan*, Princeton University Press, 1951, p. 219.

TABLE 10. *Relative Development of Hydro-Electric Power in Selected Countries*

	WATER POWER POTENTIAL (MILLION KW)	WATER POWER DEVELOPED AND INSTALLED AT PRESENT (MILLION KW)	WATER POWER DEVELOPED AS PERCENTAGE OF POTENTIAL AT PRESENT
USSR	100	22.4	22
USA	45	14.5*	34
Canada	38	7.7	20
Switzerland	4.5	2.4	67
Japan	20	5.8	30
Australia	3	0.3	9
India	30-40	0.5	1.5

Source: *Government of India Fiscal Commission*, 1949, Vol. I, p. 30.

* Total electricity produced in the USA is considerably more than in the USSR. In fact, water power has usually accounted for only 3 or 4 per cent of the total supply in inanimate energy, and about one-fourth of the water power at feasible dam sites has been developed. *America's Needs and Resources A New Survey*, J. Frederic Dewhurst and Associates, New York, 1955, p. 775.

This implied reliance not on market forces, but full-scale mobilisation of economic resources by integral economic planning.

Writing at the time of another catastrophic famine, Sir Horace Plunkett, in his *Report to the Recess Committee* of 1896, noted the analogies between the implementation of liberal economic policies in nineteenth century India and British mercantilist policy in Ireland, "where it forced the population into entire dependence on the land and reduced the country to an economic condition involving periodical famine,"[263]

Total population dependent on agriculture rose from 61% in 1891 to 66% in 1901, 71% in 1911 and 73% in 1921.[264] This percentage occupational distribution had not changed appreciably by 1941.[265]

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263. Quoted in *Rep. of the Ind. Comm.*, 1916-1918. Cmd. 51, p. 256.

264. W.S. Lilley, *India and Its Problems*, London, 1924, p. 27.

265. G.G. Ghate, *Changes In the Occupational Distribution of the Population*, New Delhi, 1941.

Given the immensity of the job confronting agriculture, what was needed were not stop-gap administrative "recommendations" from Westminister, but all-embracing changes in the social structure from the Hindu Kush to Dondra Head and eastwards to the waters of the Mekong, underpinned by effective legislative action.[266]

Apart from geophysical considerations, famines in India were largely due to the country's social and institutional structure. The sub-continent was characterised by poor transportation and local isolation, which meant that an affected region could not get aid from other regions. Possessing a feudal type of comprador capitalism, this "meant that famine conditions were exacerbated rather than helped by the operation of the price system."[267]

TABLE 11. *The Kingdom of Famine*

PERIOD UNDER CONSIDERATION	NUMBER OF PERSONS AFFECTED	DEATHS DUE TO STARVATION IN PERIOD
1901	50,000,000	4,000,000
1906-1907	50,000,000	50,000
1918-1919	150,000,000	10,000,000
1942-1944	40,000,000	1,000,000
Other years		15,000,000

Source: H.H. Hinman and William I. Battin, *Population Pressure, War and Poverty*, New York, 1945, p..64.

* The figure for 1942-1944 is certainly above 1,000,000. *Cf. Famine Commission Enquiry, Report on Bengal*, New Delhi, 1944, p. 108.

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266. A rather striking example of the type of reform that was urgently needed was afforded by the process of land alienation in Burma.

Attempted reforms to remedy the situation met with total failure. In fact owing to the united front of the Chettyars, business interests and senior members of the Indian Civil Service the proposal to check the rapid drift of land alienation was defeated. Even when the Land and Agriculture Committee met in 1938 and attempted to draft a Land Alienation Act they were vigorously assailed by liberal reasoning. "Against this Act," writes Russell Andrus, "were marshalled the arguments of *laissez-faire* economics. Capital was necessary for productive activity, and would not be available unless security was provided for the lender."*Burmese Economic Life*, Stanford University Press, 1947, p. 80.

267. *The Population of India and Pakistan*, p. 39.

Famine and India became synonymous. In the period 1826-1850, estimated deaths from famine totalled 400,000, in 1851-1875 5,000,000 and in 1876-1900 26,000,000. Famines and scarcities were four times as numerous during the last thirty years of the nineteenth century than they were one hundred years earlier, and four times more widespread.

Up to the threshold of national independence, famine reigned supreme.

"Excluding severe scarcities often confined to limited areas," wrote Romesh Dutt in 1900, "these were eighteen famines between 1770 and 1787; and if we add to this list the subsequent famines of 1889, 1892, 1897 and 1900, we have a sad record of twenty famines within a period of 130 years of British rule in India."[268] When India was on the brink of one of the severest famines of the century (1876-1877), she exported large quantities of food grains than she had ever done in any preceding year.[269] In his well-known monograph. Loveday observed: "It is not the lack of skill upon the part of the cultivator . . . which has caused his poverty. . . . If the productivity of the land is to be materially increased, the whole social and material basis of society must first be revolutionised."[270]

Such were the cumulative effects of the transformation of the "Indian Dependency" into a plantation economy "growing raw produce to be shipped by British agents in British ships, to be worked into fabrics by British technique and British capital, and to be re-exported to the Dependency by British merchants to their corresponding British firms in India and elsewhere."[271]

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268. *Famines and Land Assessments in India*, London, 1900, p. 1

269. *Economic History of India*, Vol. II, pp. 347-9.

270. *The History and Economics of Indian Famines*, London, 1914, p. 8.

271. Mr. Ranade, *Essays on Indian Economics*, 1916, p. 37. This view, however, should be qualified, for as Panikkar pointed out, British monopoly interests were not primarily based on plantations but on shipping, banking, insurance and the control of trade inside the country through the distributive machinery. Indian capitalists having realised that they had little chance of independence, adjusted themselves to the subordinate status of being agencies of British firms, *op. cit.*, p. 148.

The profound economic jolt of such a cataclysm was grist to the mill of the American anti-liberal, Henry Carey, who did not fail to draw the correct implications:

> The Hindoo may well say that nothing is left him but his skin. He knows no freedom but to die: yet he is the subject of England, whose people are furnishing the world with missionary bishops to teach Christianity, the basis of which is "Do unto your neighbour as ye would that he should do unto you". . . . The Hindoo raises cotton, but consumes only so much as will give him a strip to cover his loins. He raises rice, but he eats little for he may not even clean it: and all this is done that England may be the workshop of the world. . . .

He went on to forecast that "India will grow rich...when India shall be independent, but until she acquired the power to place the consumer by the side of the producer, she must remain poor."[272]

If manufactures are crippled, agriculture overtaxed, and a third of the revenues remitted out of the country, argued Dutt at the turn of the century, any nation on earth would suffer from permanent poverty and recurring famines. "Economic laws are the same in Asia as in Europe. If India is poor today, it is through the operation of economic causes. If India were prosperous under these circumstances it would be a miracle."[273]

But the all too visible bankruptcy of a spent and decayed ideology did not diminish the occupants belief in its omnipotence. In economic questions, said Garratt and Thompson, a sort of fatalism infected the Government of India, and "each disaster confirmed its belief in Free Trade and non-interference."[274] Here was the blindness of the moribund. An alien ideology had been thrust on a society incapable of receiving it; yet when

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272. H.C. Carey, *The Past, the Present and the Future,* London, 1848, pp. 405-07. A work of contemporary relevance.

273. R. Dutt, *Economic History,* op. cit., p. XVI.

274. *Rise and Fulfilment of British Rule in India,* op. cit., p. 494.

the experiment palpably collapsed, no change was forthcoming. Instead, the rags and tatters of a doctrine were clung to with even greater tenacity.

Forty-eight years after the proposals of the Famine Commission of 1880, the *Linlithgow Report* commented, in very much the same words, that "the overcrowding of the people on the land, the lack of alternative means of securing a living, the difficulty of finding any avenue of escape . . . combine to force the cultivator to grow food wherever he can and on whatever terms he can."

But perhaps the most lethal indictment on liberal economics was to be dramatised by the *Royal Famine Commission for Bengal* in 1943.

"We have referred to the atmosphere of fear and greed which, *in the absence of controls* (italics mine), was one of the causes of the rapid rise in the price level. Enormous profits were made out of this calamity, and in the circumstances, profits for some meant death for others. A large part of the community lived in plenty while others starved, and there was much indifferences in face of suffering. Corruption was widespread throughout the province. . ."

After commenting on the toll of more than one and a half million Bengalis, the Commissioners concluded with this litany of woe: "Society together with its organs, failed to protect its weaker members. Indeed there was a moral and social breakdown as well as an administrative breakdown."[275]

Such was the scathing indictment of the British colonial occupation and liberal economics 187 years after the triumph of British arms in Bengal and the Carnatic, three years before the capitulation of the occupant and national freedom. Was this not a national holocaust?

"The story," writes H.D. Malaviya, a leading Congress theorist, "is that the British, in the process of their domination over India, kept no limits to brutality and savagery which man is capable of practising. Hitler's depredations, his Dachaus and Belsens, . . . pale into insignificance before this imperialist savagery."

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275. *Bengal Famine Enquiry Commission*, 1944, p. 106.

British Rule: Imperial Foundations

A technical revolution is meaningless if not paralleled by far-reaching changes in the social structure, i.e. a transformation in the social relations of production. The perpetuation of the existence of the British occupant necessitated the creation of intermediary buffer social forces of indigenous growth.

In addition to the Zemindari, British occupation underpinned the most retrograde feudal elements[276] composed of the 600 Indian princely states governed by a weird medley of medieval and modern legal practices. These varied in size and politico-economic importance and dispersed like a patchwork over the map of India, embracing 25% of the population and 20% of the land area.

The scale ranged from the massive state of Hyderabad, on whose throne sat the most corrupt and wealthiest potentate in the world, to the tiniest of holdings. Saurashtra, with a population of 4,000,000, was formed after liberation, for instance, by the amalgamation of 221 former princely states. In the case of all of them — large and small — quisling interests were created whose perpetuation depended on the continued presence of the occupant and hence the opposition to a union republic. In the case of Hyderabad, this necessitated the use of military force.

Far from being anomalous survivals, the princely states were the creation of Lord Wellesley, "in his half-dozen years of daemonic activity," although it required "a subsequent war and settlement, a dozen years later, to determine the Princes' rights and status."[277]

The anguished cry of Governor Robertson, in 1842, revealed the *raison d'être* of such an institution and its power hierarchy. "It is a fearful

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276. *Cf.* P.L. Chuggar, *Indian Prices under British Protection. A Study of Their Personal Rule, Their Constitutional Position and Their Future,* London, 1929.

277. E. Thompson, *The Making of the Indian Princes,* Oxford University Press, 1943, p. 140. Autonomy must not be interpreted as synonymous with "independence." Indeed, there is abundant evidence of interference by the paramount power. *Cf.* Sir William Lee-Warner, *The Protected Princes of India,* London, 1894, p. 306.

experiment, trying to govern without the aid of an intermediary of indigenous growth."[278]

After the East India Company had been liquidated and India nationalised following the first war of independence, the necessity of exercising indirect political control through the intermediary of a native caste was accepted by Westminster unconditionally. In point of fact this intermediate collaborationist native social stratum whose interests were tied to the perpetuation of the occupation has been one of the twin administrative pillars of modern colonialism. "Every Government in Africa," writes Lord Hailey, "has been faced with the initial difficulty of administering an extensive area with a small European staff . . . ; in every case it has found itself obliged, in the early days of its rule, to make use of chiefs or other native authorities, and the extent to which it has done so has depended on circumstances rather than on any difference of principle."

It is ironical to think that a princely social order whose prodigality and debauched living assumed shocking proportions afforded economic liberalism a means of prolonging its existence almost a century after the great rebellion.

Addressing the Bengal Legislative Assembly, a zemindar declared as late as 1929: "The British Government will be well advised to beware of agrarian socialism. The Permanent Settlement has proved to be a lasting barrier of the state against Bolshevism."[279] "If we are to exist as a class", declared the Maharajah of Mymensigh, Chairman of the All-India Landlords' Conference in 1938, "it is our duty to strength the hold of the Government."[280]

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278. R. Dutt, *op. cit.*, p. 43.

279. Quoted in N.M. Pal, *Land System of Bengal, Calcutta,* 1929, p. 129.

280. S. G. Madim, *Need for Institutional Changes and Regional Planning for Optimal Developments of the Agricultural Resources of India,* Wisconsin, 1949, p. 33.

India's reconstruction required revolutionary internal changes and an uncompromising frontal assault against vested interests — and here was the dilemma of the British Raj — none of these changes could have been ushered in without eliminating those social forces on which it rested.[281]

Towards the abuses of these puppet princes and other anachronistic social survivals the British Raj maintained an air of lofty indifference, if not neutrality.[282] Whitehall's attitude might well have been dictated by the Chinese sage Mencius: "The administration of government is not difficult," he wrote in 300 B.C. "It lies in not offending the great families."[283]

There can be no industrialisation without painful adjustments in the social structure, leading to a greater degree of social mobility. United Nations experts have reminded us that a prerequisite of growth is the scrapping of senile social institutions, the disintegration of caste and the separatism engendered by race and religion. In their opinion, there are a number of less developed countries "where the concentration of economic and political power are in the hands of a small class, whose main interest is the preservation of its own wealth and privileges," thus ruling out the prospect of much progress "until a social revolution has effected a shift in the distribution of income and power."[284]

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281. *Cf.* the evidence of Mr. Wadia, an Indian businessman: "We must have complete confidence in the Government, which unfortunately we have not, and the reason for this is to be sought in the past history of the English and Indian Governments." *Indian Industrial Commission*, 1916-1918, Minutes of Evidence, Vol. IV, pp. 135-6.

282. *Cf.* Lord Falkland's statement quoted in L.S. O'Malley (ed.), *Modern India and the West*, London, 1941, pp. 592-3.

283. Quoted in United Nations Economic and Social Council, *Fourth Report of the Technical Assistance Board to the Technical Assistance Committee*, New York, 1952, Document E/2213, Vol. I, p. 98.

284. *Measures for the Economic Development of Under-Developed Countries*, Report by a group of experts appointed by the Secretary-General of the United Nations, New York, 1951, pp. 15-16.

In India this shift in the centre of gravity of political, economic and administrative power was only to be consummated — the process is slow — by national integration[285], the abolition of the Zemindari, the dissolution of the princely states, the beginnings of a land reform movement,[286] central legislation against the more noxious forms or orthodox Hinduism[287] and the drive to industrialise.

Prior to 1947, there was no such thing as a unified India, as some have claimed.[288] *The Joint Parliamentary Committee on Indian Constitutional Reforms* (1933-1934) pointed out, for example, that certain of the larger princely states depended for their revenue on the existence of their port and customs duties, forcibly preventing India from having a co-ordinated tariff policy. Moreover, the existence of semi-autonomous states hindered the extension of a unified body of administrative, commercial, maritime, industrial and banking law, the integration of the transport network and, in some cases, the currency system. The Committee noted that "conditions such as these, which have caused trouble and uneasiness in the past, are already becoming and must in the future increasingly become intolerable as industrial and commercial development spreads from British India to the states."[289]

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285. *White Paper on States Integration*, Published by the Indian Government in March 1950. The raison d'être behind unification was stated in the following terms: "For generations the people of States had been fed on clichés such as 'democracy is a slow-growing plant'; 'States must evolve Constitutions suiting their genius and requirements with well-defined checks'; 'States must not import from outside a single mass produced Constitution' etc. With the liberation of India from the foreign yoke, the people were in no mood to allow such cobwebs of verbiage to cloud the issue of transfer of power to them. There was the great danger, therefore, in introducing an element of gradualness in the process of scaling down autocracy from its exalted perch. It was in this context that complete elimination of the autocracy of Rulers was decided upon: full and final transfer of power from the Rulers to the people has been an essential feature of all schemes adopted for the integration of States."

286. India: Ministry of Agriculture, *The Agricultural Situation in India*, New Delhi, 1951; also A.N. Vij, "Financial Aspects of the Abolition of Zemindari," *Bulletin of Reserve Bank of India*, June 1950.

287. K.M. Panikkar, *Hindu Society at the Crossroads*, Bombay, 1955.

288. L. Emerson, "Paradoxes of Asian Nationalism," *The Far Eastern Quarterly*, Vol. XIII, No. 1, February 1953.

289. *Cf.* M.C. Mather, "Integration of the States," *Indian Journal of Economics*, April 1951, p. 420.

Railway Investments

It is one of the banalities of liberal economic thought to consider private international foreign investments as a polarising agent in the industrialisation process of the recipient country; but the illusion that foreign investment in railways would, under all conditions, usher in a new period of industrialisation was also shared by the founders of Marxism.[290] In one of his letters to Engels, Marx maintained that the British conquest of India should be seen as part of an historically progressive force, and that the British occupant was "the unconscious tool of history."

"England, it is true, in causing a social revolution in Hindustan, was actuated only by the vilest interests, and was stupid in her manner of enforcing them. But that is not the question," he continued. "The question is: can mankind fulfil its destiny without a fundamental revolution in the social state of Asia? If not, whatever may have been the crimes of England, she was the unconscious tool of history in bringing about that revolution."[291]

To him, the harbinger of this "British Revolution" in India was, of course, the railway, for once this was introduced the dialectical process of industrial inevitability became operative. Given the availability of strategic resources, industrialisation was irresistible once railways were laid.[292]

It is surprising to find a League of Nations economist repeating the Marxist fallacy. The inflow of capital for the development of other activities stimulates industrialisation. "If foreign capital is engaged, for

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290. The Victorian optimism of Marx bears remarkable similarities with that of H. Clarke. See his *Practical and Theoretical Considerations on the Management of Railways in India*, London, 1846. Marx's exploration in the field of Indian economics dates only from the beginning of the eighteen fifties

291. *New York Daily Tribute*, 25 June 1853, cf. S.F. Bloom, *The World of Nations: A Study of the National Implications in the Work of Karl Marx*, New York, 1941, p. 53.

292. "Die zukunftigen Ergebnisse der englischen Herrschaft in Indien," published in the periodical *Unter dem Banner des Marxismus*, Heft 2, 1925. Although I disagree with Marx that the railway was the harbinger of a "new social revolution" in India, I would be inclined to agree that the railway network was the unifier of the nationalist movement. "India is being made," wrote Dilke in 1869. "A country is being created under that name where none has yet existed." *Greater Britain*, p. 332. Also E. Arnold's The *Marquis of Dalhousie's Administration of British India*, 1865, Vol. II, pp. 241-2. A similar line of reasoning by A.R. Desai, *Social Background of Indian Nationalism*, Bombay, 1954, p. 35.

instance, in building a railway intended to carry agricultural exports, those employed in the construction and later in railway transportation and agriculture will exercise a demand from which domestic manufacturing will profit; the railway will also serve the transportation of domestic manufactured goods; and will release domestic savings for investment in manufacturing."[293]

The story of the Indian railways, within the context of economic policies of the British raj reveals the fragility of such a generalisation, and justifies Jenk's contention that "railroad building in India did not give rise to a flood of satellite innovations, and it destroyed more occupational opportunities than it opened up."[294]

It is true that the "iron horse' contributed immensely towards the opening up of the American and Canadian West[295] and their later remarkable growth. The same is true of France, Germany[296] and the United Kingdom.[297] Railway construction in Japan after the Meiji restoration of 1868, under the impetus of state initiative, was a potent factor in Japanese growth.[298] Nevertheless, it does not follow that the establishment of communications networks must *inevitably* lead to industrialisation.

In certain cases it may even retard balanced growth, as both India, China and certain parts of Africa and Latin America have demonstrated.

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293. *Industrialisation and Foreign Trade*, Geneva, 1945, p. 67.

294. "British Experience with Foreign Investment," *Journal of Economic History*, December 1944.

295. Canadian railway construction is interesting. In 1896, 16,387 miles were in operation; in 1911, 26,000 miles; in 1913, 29,304. Between 1900 and 1913, the railway mileage in operation increased by 65%, giving Canada greater railway mileage per capita than any other country. Transport investment in general rose from an annual average of $40 million in 1901-1905 to $108 million in 1906-1910, and to $170 million in 1911-1913. *Cf.* J.B. Brebner, *North Atlantic Triangle*, New Haven, 1945, p. 229, and the unpublished doctoral dissertation of K.A. Buckley, *Real Investment in Canada*, Library of the University of London, 1950, p. 174.

296. J.H. Clapham, *The Economic Development of France and Germany*, 1815-1914, Chapter VII, Cambridge University Press, 1945, as well as J. Schumpeter, *Business Cycles*, New York, 1939.

297. A.K. Cairncross, *Home and Foreign Investment*, 1870-1913, Cambridge University Press, 1953, p. 75. Also P. Sweezy's article in *Econometrica*, October 1954, underlining the importance of railways both as strategic innovations and outlets for capital accumulation.

In the last analysis, it would appear that the ancillary effects of railway construction depends on the socio-political and economic background of railway policy: the objectives and interests it intends to serve.

Railway financing on the London money market did not create enhanced possibilities for the risk-taking creative "dynamic entrepreneur" in the Schumpeterian sense of the word, not did it induce new metallurgical construction or the training of technicians and engineers, so intimately tied up with the development of a railway network. This last point is of vital importance, being equally applicable to other countries which have absorbed vast inputs of foreign capital. *The Acworth Railway Committee Report* of 1921 reported the absence of native trained personnel. Of 710,000 persons employed by the Indian railways, 700,000 were Indians and only 7,000 or 1% Europeans. "But the 7,000 were like a thin film of oil on the top of a glass of water, resting upon but hardly mixing with the 700,000 below. None of the highest posts are occupied by Indians; very few even of the higher."[299]

Railway Strategy

In his well-known minute, Lord Dalhousie, the architect of British railway policy and "a man completely swayed by the theories of economic individualism of his age,"[300] made it clear that an aggressive railway policy was indispensable for strategic and economic reasons. "The commercial and social advantages which India would derive from their establishment

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298. Japanese railway construction was undertaken as a national effort. The contrast with both India and China is immense. It has been argued that railway promotion was only a part of a more broadly conceived national effort. In contrast to India, within a decade Japanese technicians and engineers were available and foreigners amde superfluous. The government pioneered in rail construction, but it permitted private promoters to sponsor subsequent lines, with advantage to private businesses in roads not only in developed areas but also in areas of potential development. *Cf.* T. Orchard, *Japan's Economic Position*, New York, 1930; G.C. Allen and A.G. Donnithorne,*Western Enterprise in Far Eastern Economic Development*, London, 1950; Nobutaka Ike, "The Pattern of Railway Development in Japan," *The Far Eastern Quarterly*, Vol. XIV, February 1955.

299. *Report of the Committee Appointed by the Secretary of State for India to Enquire into the Aministration and Working of Indian Railways* (Acworth Report), London, 1921, p. 58.

300. L. Sanyal, *Development of Indian Railways*, Calcutta, 1930, p. 17.

are . . . beyond calculations," declared Dalhousie. "England is calling aloud for the cotton which India does already produce in some degree, and would produce sufficient in quality, and plentiful in quantity, if only there were provided the fitting means of conveyance for it from distant plains to the several adopted for its shipment."[301]

At the time of the first war of independence there were only 300 miles of railways in operation. In the ensuing year — 1858 — the year of the death sentence on the East India Company, the last deterrent to the railroad boom was removed.[302] In the golden age of *laissez-faire* the state (or rather the Indian taxpayer) was to assume the burdens of this expansion.[303]

Porter, economic adviser to the Board of Trade, glimpsed the significance of the railways for cotton production.[304] But there was yet another strategem in the minds of Board of Trade officialdom: the breaking of the monopoly of the American South. The embargo on the Confederacy by Union forces "led the British to fulfil fond hopes, long entertained, of breaking the cotton monopoly by encouraging cotton-growing in India and Egypt,' wrote Coulter. "Before the end of the civil war they had

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301. Sir W.W. Hunter, *Marquis of Dalhousie* (Ruler of India, Series), London, 1902, pp. 193-4. It was this same Governor-General who, during his eight years of administration, was responsible for the conquest of eight large Kingdoms—the Punjab, Lower Burma, Berar, Oudh, Sambalpur, Satara, Jhansi and Nagpur.

302. For the beginnings of the Railway Age in India, see D. Thorner, *Investment in Empire: British Railway and Steam Shipping in India*, 1825-1849, Oxford University Press, 1953. Had there been more than 300 miles of railways at the time of the Mutiny, the Government would have had less difficulty in quelling the rebellion.When Parliament ordered an enquiry into the progress of railway construction in India, the railway companies seized the opportunity and painted a black picture of government harassment to which they had allegedly been subjected. The Parliamentary Committee supported them and rebuked the Government of India (i.e. the East India Company). The result was that after 1858 the costs incurred in railway construction were checked only by a post audit system. This left the way open for a rapid expansion after the disappearance of the Company. *Cf.* Letter to the Right Honourable Lord John Russell, M.P..... on the subject of Indian Railways (1848). Thorner, *op. cit.*, pp. 151-2.

303. *Acworth Report*, Appendix 3, shows the amounts paid to railway companies as guaranteed interest from 1859 to 1918-1919. Only by 1900-1901 did this deficit turn into a surplus.

304. Porter, *op. cit.*, pp. 490-1.

succeeded in securing large supplies from these regions."[305] It was not inconsistent that in the home of classical political economy the development of Indian railways was deliberately fostered by the British Government and not by the precepts of the "invisible hand." Yet this interventionist measure which came to be known as the "Railway Guarantee Scheme" was being promoted at a time when Lord John Russell, then Prime Minister, had refused, during the hungry forties, to allow grain to be shipped to Ireland in ships of the Royal Navy, on the ground that government poaching on the preserves of private shipowners was not only incompatible with good economics but morally deplorable.

But Lancashire needed both cotton and the Indian internal market, and this was more crucial than any ethnical quibble. By lavish public relations campaigns, astute and persistent lobbying, the Cotton Supply Association wheedled the British government into wholesale promotion of state subsidised railway construction. "Capital flowed into railways," wrote Habbakuk, 'under the stimulus of a state guarantee of interest; without that guarantee, capital would not have moved in that direction . . .'[306] Questioned by the Select Committee in 1872, Colonel Chesney testified that "it was expected that great encouragement would be given to what was called private enterprise in India, which meant, of course, *that private individuals should go there, and that the Government should undertake to guarantee the parties against all loss, and leave them all the profits.*"[307] (Italics mine)

Railway expansion occurred under the auspices of the Indian Government, who guaranteed a 5% interest to British investors; but the guarantee "killed effort for economy, promoted recklessness, and involved the country in liabilities much beyond what the people could bear or the needs of the

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305. E. Merton Coulter, *The Confederate States of America*, 1861-1865, Baton Rouge, 1952. The value of Indian raw cotton rose from £4 million in 1859 to £10 million in 1862; £18 million in 1863 and £35 million in 1866. The hope entertained by some that India would displace the Southern States as a permanent cotton supply base was soon proved illusory when peace returned.

306. "Free Trade and Commercial Expansion, 1853-1870," *The Cambridge History of the British Empire*, Vol. II, p. 797.

307. N. Sanyal, *op. cit.*, p. 17.

time could justify."[308] This was one of the contributory causes of the excessive swelling of the Indian public debt. The same guaranteed interest railway contracts, which induced the companies to be prodigal in their construction costs also encouraged them to be indifferent to the volume of traffic. Why should companies exert themselves to secure the maximum freight when, even if their earnings were low, the guaranteed interest would boost their dividends to 4% or 5%?

Instead of trying to generate the largest possible flow of freight and passenger traffic, they contented themselves with relatively high rates and a high fares policy.[309]

This was the essential difference between railroad promotion in Japan and India. "Railroads," wrote Inouye, one of the pioneers of Japanese railways, "promote transportation and communications and facilitate everything from national defence to the promotion of enlightenment. Accordingly, the amount of direct profits gained from investment is not the only criterion for judging the value of railroads."[310]

The 1860's were fat years for British speculators, contractors and engineering suppliers. Between 1857 and 1869 about £70.2 million flowed to India, exclusively in railways.[311] The first 6,000 miles up to 1872 cost £100 million, or over £16,000 per mile. "There was a kind of understanding," declared a government auditor of railway accounts at the 1873 enquiry, "that they were not to be controlled very closely . . . nothing was known of the money expended till the accounts were rendered."[312] Enormous funds were squandered, reported former Finance Minister W.N. Massey: "The contractors had no motive whatever for economy. All the money came from the English capitalists, and so long as he was guaranteed his 5% on

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308. *Ibid.*

309. Sir Alfred Chatterton, *Industrial Evolution in India*, Madras, 1920, p. 20. Also "The Pattern of Railway Development in India," *Far Eastern Quarterly*, Vol. XIV, February 1955, No. 2.

310. Quoted in Nobutaka Ike, "The Pattern of Railway Development in Japan," *The Far Eastern Quarterly*, Vol. XIV, February 1955.

311. *Migration of British Capital*, p. 219.

312. Quoted in R. Dutt, *op. cit.*, p. 355.

the revenues of India, it was immaterial to him whether the funds he lent were thrown into the Hoogli or converted into bricks and mortar. . . ."[313]

Skullduggery, corruption and kickbacks, however reprehensible, were part of an immutable order of things. "There is no doubt," testified General Strachey, "that this is the unfortunate result of having a despotic government, managed in the sort of way that the Government of India is, and, for myself, I do not exactly see there is any remedy for it."[314]

Apart from bloating the public debt, railways served the dual purpose of widening the markets for the British iron and steel industry and eradicating the last vestiges of Indian manufactures. The steel of the railways, it has been said, pierced the older India by the heart and the blood ran out. The last and final wedge had been driven. "India in the Eighties," said Gadgil, "afforded the spectacle of a huge country with decaying handicrafts, with any other form of organised industry almost non-existent and a falling back upon the land."

Instead of creating the preconditions of balanced growth, the railways consigned old towns to oblivion or resurrected them as mere distribution centres, hastened the disintegration of the old economic order without compensating the loss by creation of new industrial areas. As late as 1928 the *Linlithgow Report* admitted that "most of the 500,000 villages have not yet been touched by metalled road or railways."

One of the central weaknesses in railway planning was that they were developed in one direction only, linking big cities with ports, chiefly to stimulate India foreign trade. Inland trade, which accounted for the bulk of trade was hamstrung. Moreover, in areas where they were developed, railway construction was given priority to the cheaper and more productive investments in navigable canals.

Testifying before the 1878 Railways Committee, irrigation specialist Sir Arthur Cotton stated that railways were no famine bulwarks. "I am afraid we must reckon that out of the 40 million affected by the famine in Madras, Mysore, Hyderabad and Bombay, four or five millions have

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313. *Ibid*, p. 356.

314. *Ibid*, p. 357. Also the evidence of Lord Lawrence quoted in C.N. Vakil, *Financial Developments in Modern India*, 1860-1924, Bombay, 1924, p. 201.

perished, after spending 120 millions on railways besides incurring a debt of 50 million sterling." "Why did not the Indian Government develop irrigation and navigation canals" asked the Chairman.

"Because." riposted Sir Arthur, "it would stultify the railways, that is the sole point. Only think of the Eastern Bengal Railway which carries some 200,000 tons and a canal by the side of it carrying 2,000,000 and swarming with passengers and goods. What a terrible affront to a railway that must be."[315]

Corruption and scandalous financial malpractices partnered inefficiency. The authors of the *Acworth Report* advocating nationalisation on the Swiss and German model, declared "that railway development and therefore the economic development of India has been starved, is not the only charge which we are compelled to bring against the system of financial control to which the railways have been subjected. It might have been expected that control purely from the financial point of view would at least have resulted in correct and unimpeachable financial orthodoxy. This has not proved so in practice."[316]

The Acworth Committee uncovered that subordinate railway officials were able to capitalise on the shortage of railway cars by exacting bribes from Indian businessmen in return for prompt service, whereas the British businessmen were promptly served. It was not too much to say, continued the authors of this report, that bribery "had grown into a system of organised blackmail."[317] But in 1937 the *Wedgewood Report* admitted that these discriminatory practices continued to prevail.

Summing up the disruptive effects of British railway policy, one observer recently remarked that "*after all, the prime concern of British railway policy in India was to make India useful to Britain, not to make Britain useful to India.*"[318] The coming of the railway, coupled with the influx of British capital, failed to usher in that age of industrialisation of which men so

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315. Dutt, *op. cit.*, p. 366.

316. *op. cit.*, p. 35

317. *op. cit.*, p. 53.

318. Thornton, *Eastern Quarterly*, Vol. XIV, 1955.

doctrinally different as Clark and Marx had dreamt, and India continued on the road to social degradation and economic stagnation.

In a paper read to the *Royal Statistical Society* in 1911, Sir George Paish estimated total British capital investments in India and Ceylon at £365 million.

TABLE 12. *British Investments in India and Ceylon, 1909-1910*

	£ MILLION
Government bonds	179.0
Railways	136.5
Plantations: tea, coffee, rubber	24.2
Mines	3.5
Banks	3.4
Commercial and industrial	2.6
Miscellaneous	16.1
TOTAL	365.3

Source: "Great Britain's Capital Investments in Individual Colonies and Foreign Countries,"*Journal of the Royal Statistical Society*, Vol. 74, 1910-1911.

Thus 97% of investments in the pre-1914 period went into Government bonds, transport, plantations and finance — i.e. precisely those economic sectors tributary to the commercial penetration of India, enlarging the market for Indian raw materials and British manufactured goods.

Notwithstanding these massive investments the only gains that were passed on to India in jute and textile mills, gold and coal mines, tea plantations and leather factories were "the wages received by the Indian coolies for their bodily labour."[319] The investment effect was inadequate to spark and sustain a cumulative expansionary momentum.

Later Deterrents to the Industry

Up to the outbreak of World War I, *laissez-faire* economic policy was hardly distinguishable in its end-effects from mercantilism. No one,

319. *op. cit.*, p. 283

except Indian economists and a sprinkling of English heretics, questioned the perils of specialisation and the hazards of pursuing a liberal economic policy in a country where conditions precluded its success.[320]

And hence it is not at all surprising to find the young imperial Keynes staunchly defending classical specialisation according to the canons of rigid orthodoxy, as late as 1911, urging India not to industrialise, and excoriating "current opinion in India, where a considerable part of the educated classes seems to desire with patriotic fervour the industrialisation of their country." He added: "In my opinion such a change is not, in the future which one can foresee, either desirable or likely. It is an unfortunate consequence of the English connection that industrialism should present itself to Indians as the royal road to prosperity and to a dignified position among nations."

Like his classical predecessors, specialisation was part of an immutable historical process. "He (reviewing Sir Theodore Morison's *Economic Transition in India*) rightly attributes the contemporary decay to the growth of specialisation, consequent on the improvement of communications. But this improvement has also led to some degree of specialisation among nations,[321] and if regard be had to climatic conditions, and to the aptitudes and habits of her people, *it seems hard to believe that India will not obtain more wealth by obtaining from the West, in exchange for her raw materials, most of those commodities which she now obtains in this manner, than by diverting her capital . . . and peasants . . . in order to make them herself.*" (Italics mine)

The spurious claim advanced in support of this thesis lay in what Keynes imagined to be important changes in the structure of the terms of trade. The fact "that prices of Indian exports have been rising a good deal faster than those of imports shows, I think, that a tendency is already at

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320. In his attitude to protectionism in India even Alfred Marshall remained an implacable liberal. *Cf.* A.C. Pigou, *Memorials of Alfred Marshall*, p. 472. Marshall's comparison with Japan is invidious. In the first place India was not a sovereign state; secondly, in Japan the state pioneered technical education and furthered rapidly modernisation on every level.

321. His attitude to specialisation lost much of its rigidity in subsequent decades. *Cf.* "National Self-Sufficiency," *Yale Review*, June 1933.

work enabling her to make these exchanges at a ratio more and more advantageous to herself."[322]

Ironically these jejune observations were written by a thinker whose ideas were dominant in post-1947 Indian planning. Keynes's doctrinal orientation at this stage was still liberal (and his opinions may have been conditioned by his status as economic adviser to India House), reflecting the paramount official liberalism of Edwardian England.[323]

Attempts and Failures

Various attempts to stimulate industrialisation by pioneer factories and Government subsidies prior to World War I were "effectively discouraged by Whitehall."[324]

In the *Report of the Indian Industrial Commission*, 1916-1918, it was shown that in the name of "private enterprise and initiative" all suggestions for state aid to industry were considered economically unsound.

In his Despatch No. 50 — Revenue, dated 29 July, 1910, Lord Morley asserted that "the results of the attempts to create new industries were not of a character to remove his doubts as to the utility of state effort in this

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322. *Economic Journal*, Vol. XXX, 1911, pp. 426-43. This line of reasoning was specious as post-war League of Nations reports revealed. *Cf. Memorandum on Balance of Payments and Foreign Trade Balances*, 1910-1923, Vol. I. Also: United Nations, *Instability in Export Markets of Under-Developed Countries in Relation to Their Ability to Obtain Foreign Exchange from Exports of Primary Commodities*, 1901 to 1950, New York, 1952

323. In the middle thirties, however, Keynes did see that the terms of trade weighted heavily against the primary producers, *Cf.* his article "The Policy of Government Storage of Foodstuffs and Raw Materials," *Economic Journal*, September 1938.

In the immediate post-Versailles period, he had not moved away from his pre-war liberalism—at least as far as India was concerned. In 1921 the Government of India had invited him to become vice-chairman of a Fiscal Commission. In a letter to Scott, editor of the *Manchester Guardian* (14 September 1921), he stated: "The Commission will, I think, represent a last effort, almost certainly doomed to futility, to save India for modified Free Trade. But though there is little hope of success, I expect you will agree that it is an enterprise which is worth while." Quoted in R.F. Harrod, The *Life of John Maynard Keynes*, London, 1951, p. 307.

324. *Report of the Indian Industrial Commission* 1916-1918 (Cmd. 51), London

direction, unless it were strictly limited to industrial instruction and avoided the semblance of a commercial venture. Further than this the state should not go, and it must be left to private enterprise to demonstrate that these improvements could be adopted with commercial advantage."[325]

Doctrinal considerations apart, powerful vested interests, fought and won the battle against state interventionism. Industrial blueprints for the United Provinces and Madras were knifed by European interests who "interpreted them as a serious threat to private enterprise and an unwarrantable intervention on the part of the state in matters beyond the sphere of Government."[326]

Despite sporadic outbursts in the cotton and jute industry prior to 1914,[327] India's industrial horizon continue to be marked by the almost total absence of heavy industry.

Engineering was represented exclusively by repair workshops mainly for the railways; the Tata Iron and Steel Works at Jamshedpur had only recently begun operations, and machine tool and heavy chemical industries were non-existent. Rising industries needed protection for growth, but the Indian Government failed to provide this.

"Our record in regard to Indian industrial development," wrote British economist Sir Valentine Chirol, "has not always been a creditable one in the past, and it was only under the pressure of war that the Government was driven to abandon its former attitude of aloofness, if not jealousy, towards purely Indian enterprise."[328]

Another major handicap to industrialisation was the critical shortage, if not absence, of training facilities for technologists. The official apologia given by the Montagu-Chelmsford Report was repugnance of Indians to technical careers, given their natural literary bent.[329]

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325. *Ibid*, p. 71.

326. *Ibid*, p. 71.

327. For the pre-World War I industrial trends,*cf.* Gadgil, *Industrial Evolution of India*, Calcutta, 1946

328. *The Observer*, 2 April 1922.

329. *Report on Indian Constitutional Reforms* (Cmd. 9109), Simla, 1918, p. 264.

The real reason lay elsewhere: namely the limited market for Indian scientific and engineering talent 'except in the case of manufacturing iron works and small industries of no great practical importance."[330] Addressing the 1905 industrial conference, Sir John Hewett, Lieutenant-Governor of the U.P. said that "the question of technical and industrial education has been before the Government and the public for over twenty years. There is probably no subject on which more has been written or said while less has been accomplished."

Under war pressure, a new course was initiated. Lord Hardinge's economic policy, proclaimed in 1915, stood in vivid contrast to the "deadening effect" of Lord Morley's minute a few years earlier. The viceroy's call was soon echoed in the Industrial Commission's report: "It is becoming increasingly clear that a definite and self-conscious policy of improving the industrial capabilities of India will have to be pursued after the war, unless she is to become more and more a dumping ground for the manufacture of foreign nations who will be competing the more keenly for markets."[331]

"After the war," noted the *Montagu-Chelmsford Report*, "India will consider herself entitled to demand the utmost help which her government can afford to enable her to take her place, so far as circumstances permit, as a manufacturing country. . . ."

What motives inspired such imperial solicitude? The war was raging and deterrents to industrialisation were jeopardising the strategic position of India, Africa and the whole of the Mediterranean basin. This fact was recognised in the *Montagu-Chelmsford Report*. "The possibilities of sea communications being temporarily interrupted forces us to rely on India as an ordnance base for protective operations in Eastern theatres of war." Since production of armaments required an industrial base "the development of India's natural resources becomes a matter of almost military necessity."

"On all grounds," it added, "a forward policy in industrial development is urgently called for. . . . Both on economic and military grounds imperial interests also demand that the natural resources of India should

330. *Industrial Commission Report* 1916-1918, p. 94.

331. *Ibid*, p. 265.

henceforth be better utilised. We cannot measure the access of strength which an industrialised India will bring to the power of the Empire; but we are sure that it will be welcome after the war . . . ."[332]

Similarly, the *Industrial Commission Report* embodied a number of recommendations the most important of which was that the government should take an active interest in industrial expansion. These plans remained on the drawing board. Constitutional reforms of 1919 left questions of economic development to the initiative of states, but the latter were financially incapable of ensuring this expansion. Unfortunately, as Buchanan observed ten years later, the funds available were wholly inadequate and no very important economic policy decisions could be initiated. Furthermore, the encouragement of industry required "a far-reaching government policy concerning not only raw materials and methods of production, but markets as well . . . . It is doubtful whether the mere provincial offices set up in India will have any considerable effect."[333]

Buchanan's analysis was buttressed by time. A drastic internal overhaul was a crucial facet of internal administrative planning. The tariff question was its equally important external aspect.[334]

Imperial preference was hailed in the immediate post-war world as an effective instrument in world trade. Its conception was not new, and its alleged "virtues" in the field of international economic co-operation were soon to be unmasked. The colonial conference of 1902 recognised the principles as one of general application and the exigencies of a war economy and post-war crises brought it out of cold storage.

In 1917, the Imperial War Conference decided to give "specially favourable treatment and facilities to other parts of the Empire." In March 1921, the Secretary of State for India recognised the Indian Government's right to fiscal autonomy, and in October the Indian Fiscal Commission

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332. *op. cit.*, p. 267.

333. *op. cit.*, p. 464.

334. *Cf.* C.N. Vakil, *Memorandum on the Need for Revision of the Indian Customs Tariffs*, The Federation of the Indian Chambers of Commerce, Bombay, 1928

was set up, whose terms of reference were to examine all aspects of the Government's tariff policy as well as the desirability of imperial preference.[335]

India did not stand to be the gainer. "Even if the tariff policy of Great Britain was to be modified with a view to extending the field of preference, we do not think that the gain to India would be great." On the question of preferential imports the Commission "did not think that India could grant anything of great value without imposing a serious burden on herself and it would not be reasonable for India to incur such a burden," and held that the question of imperial preference should be "determined in accordance with Indian opinion."[336]

Representatives of the Indian bourgeoisie were unequivocally hostile to imperial preference. Commenting on its likely repercussions, the President of the Bengal National Chamber of Commerce stated: "The Ottawa Agreement would only increase our economic dependence and strengthen our political subjection. The British hold has until recently prevented the development of extensive trade relationships with other advanced countries. But the greatest economic lesson taught us by the war was the undesirability and the positive danger of too great a dependence upon any one country as a market for our goods or as the source of our imports. India would do well not to forget that lesson."[337] He continued — an Indian paradoxically sermonising an Englishman on the virtues of liberal international economic co-operation — by stressing that adherence to economically restrictive agreements would imperil India's position with its trading partners, such as Japan, the United States, Germany, Belgium, France, etc. and that those countries could immediately retaliate to the detriment of India. That is precisely what happened in the thirties.

Despite sustained opposition of the Indian bourgeoisie and India's ostensible "fiscal autonomy," opposition was steam-rollered and the

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335. *Indian Fiscal Commission*, London, 1921

336. *Ibid*, para 262.

337. N.R. Sarkar, *A Note on the Ottawa Agreement and India*, Calcutta, 1932, p. 31

Ottawa Agreement was implemented, with the inevitable result. "The tariff system of the nineteen twenties, originally proclaimed as a means for accelerating Indian industrialisation," wrote Kate Mitchell, "was transformed into a system which assisted British industry to compete in the Indian market, while giving India in return the privilege of favoured rates for the sale of her raw materials and semi-manufactures in the British market . . . an obvious attempt to revert to the pre-1914 status."[338]

Industrialisation failed to secure a foothold in the inter-war period, and after 1918 Lokanathan stated that those industries which were established during the war either stagnated or decayed, as they were unable to compete in international markets.[339]

Writing in 1935, Sir. M. Visvesvaraya could declare that "heavy industries, the greatest need of the day, have been left severely alone," and that the proportion of the active industrial population as a whole had tended to decline.[340]

In its "Survey of Indian Industries" made at the end of 1936, *The Economist* tersely commented that "although India has begun to modernise her industries, it can hardly be said that she is as yet being industrialised."[341]

By autumn 1941, only the tiniest inroads had been made in the chemical and other heavy industries for which India possessed all the natural endowments yet "nothing had been done to eliminate the twin bottlenecks of lack of machinery and a shortage of skilled labour which continued to cripple India's efforts towards industrial expansion."[342]

Before the outbreak of war in 1939, the protected industries generated no expansion of the gross national product, and — what was more critical

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338. *Industrialisation of the Western Pacific*, New York, 1942, p. 280.

339. *Industrialization*, Oxford Pamphlets on Indian Affairs, No. 10, pp. 6-7.

340. *Planned Economy for India*, Calcutta, 1934, p. 247

341. *The Economist*, 12 December 1936

342. Kate Mitchell, "India's Economic Potential," *Pacific Affairs*, March 1942, p.23,

— India was almost entirely dependent on foreign suppliers for machinery and capital goods indispensable for the take-off.

Similar neglect dotted the monetary, credit and banking structure, and it was claimed, by Indian businessmen, that British banking practices were discriminatory.[343]

As is generally recognised, one of the most urgent reforms in any less developed area is the mobilisation of savings and the acceleration of capital formation through the creation and systematic expansion of viable credit institutions. This is no easy matter, for it demands far-reaching changes in the social structure.

In free-enterprise occupied India, no effective mechanisms existed for mobilising savings and siphoning them off into productive channels. During the boom years of the 1920's, *The Economist* estimated Indian investments in foreign securities at 500 million rupees in 1928 but added: This figure is quoted with some hesitancy as the vast investments of the ruling princes — who have personal connections in the world's money markets — are not altogether included."[344] Indeed, these foreign holdings by the princely quislings were around 1.7 bn rupees in 1947.

The Bank of England was established shortly after the political emergence of the English bourgeoisie in 1688, but in India the Imperial Bank, though performing some of the functions of a central bank, was incapable of controlling the money market. Indian joint stock banks, sandwiched between the indigenous banks and the exchange banks, remained unintegrated. Not until 1935 was the long overdue Reserve Bank of India established on British lines.

What was needed in a less developed region was a bank called upon to assume wider responsibilities, set up special institutions to funnel

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343. *Cf. Majority Report of the Indian Central Banking Enquiry Committee*, 1931, pp. 271-2. Sir. M. Visvesvaraya wrote that "one of the chief difficulties in starting industries in India is finance. This arises from the fact that the money power of the country is under the control of the Government which, as we have seen, does not see eye to eye with Indian leaders in regard to industrial policies. Banks under the control of Indian businessmen are very few, and many of the larger banks are either under the influence of Government, or are branches of British and foreign banks," *Planned Economy for India*, Calcutta, 1934, p. 95

344. *The Economist*, "Indian Investments in Foreign Securities," 1928, Vol. 107, p. 599.

investment capital to industry, and reverse commercial banking's inherent bias against the rural areas. K.N. Raj even emphatically argued in 1948 that the new approach to economic development necessitated a nationalised banking system, rather than the traditional policy of a central bank operating indirectly via other banks.[345]

In conformity with this approach the entire credit and banking system was overhauled after freedom. Indeed, the architects of the Second Five Year Plan realised the necessity of this.

The Government of India," they said, "has taken an important policy decision recently by its announcement regarding the creation of a State Bank of India through nationalisation of the Imperial Bank and certain other State-associated banks. We welcome this decision and strongly recommend its early implementation in full. It is of the utmost importance to bring into existence as early as possible a State Bank of India operating over the whole of the country at the level envisaged by the Rural Credit Survey Committee. The regulation of activities in the sphere of banking and also through banks may have considerable importance in the planning effort. For this purpose early implementation of the policy announced recently is an important and essential step forward."[346]

The Utility of the Indian Dossier

Notwithstanding the wilting effects of economic liberalism on all facets of Indian life, it may be argued that differentially it had its constructive sides: it served as a galling reminder to those two theorists in the Third World at that time — Matthew Carey in the United States and Friedrich List in divided Germany. For them India was a vast social laboratory in which a gruesome experiment in economic genocide was taking place and from which invaluable inferences could be drawn. But perhaps, and this was not fortuitous, the country that was to harness to the hilt the

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345. Monetary Policy of the Reserve Bank of India.*A Study of Central Banking in an Under-Developed Economy*, Bombay, 1948.

346. *Second Five Year Plan, The Framework*, Ministry of Information, New Delhi, 1955, pp. 146-7.

lessons of the liberal disaster in India was an emergent Asian power: Japan.

Even Herbert Spencer, himself a scholastic zealot and ardent Darwinian, shed his liberal skin privately when he warned his Japanese friend, Baron Kaneko, then ambassador to the United States, of the perils which its acceptance might entail:

> "Respecting the further question you ask, let me, in the first place, answer generally that Japanese policy should, I think, be that of keeping Americans and Europeans as much as possible at arm's length. In the presence of more powerful races your position is one of chronic danger, and you should take every precaution to give as little foothold as possible to foreigners. It seems to me the only forms of intercourse which you may with advantage permit are those which are indispensable for the exchange of commodities — importation and exportation of physical and mental products. No further privileges should be allowed to people of other races than is absolutely needful for the achievement of these ends. Apparently you are proposing by revision of the treaty with the powers of Europe and America to open the whole Empire to foreigners and foreign capital. *I regret this as a fatal policy. If you wish to see what is likely to happen, study the history of India.*[347] (Italics mine)"

Spencer's advice proffered before the Meiji restoration did not fall on barren soil as witnessed by the staggering industrial expansion in the post-restoration period. It was the only Asian power that acted decisively, in the words of the Chinese poet Lin Tse-Hsu, "to drive away the crocodile and get rid of the whales." Survival meant meeting white man's capitalism on its own jousting grounds, i.e. by introducing modern techniques partnered by momentous educational reforms in order to rechisel

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347. *Cf.* the significant article "Herbert Spencer in Early Meiji Japan," *The Far Eastern Quarterly*, Vol. XIV, November 1954. Also Spencer's letters to Kaneko Kentario, *Life and Letters of Herbert Spencer*, London, 1911. This was the same theorist who, alarmed at what he considered to be an anti-liberal trend of legislation, denounced in his *Man Versus the State* (London, 1884) interferences with the operations of a free market. Among these, he included not only labour legislation, but sanitary and state aid to education.

traditional society under the aegis of a modern nation-state. Economic liberalism was forcibly an outcast idea in this new order.

Japanese industrialisation, with its accent on state intervention,[348] avoidance of foreign capital in the germinal stages of growth,[349] exercised a magnetic pull on Asians. Hamilton, in a note submitted to the Industrial Commission of 1916, reported that "even more arresting, from an Indian point of view, is that this remarkable transformation has been achieved by an Asian community."[350] The father of the first Chinese Republic, Dr. Sun Yat Sen, who had studied in Japan,[351] invoked that country as a model for all Asia: "Japan was one of the strongest powers. Her people have given up their old prejudices, they have learnt the lessons of the West, reformed

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348. G.B. Sansom, *The Western World and Japan: A Study in Interaction of European and Asiatic Cultures*, New York, 1951, pp. 500-01, 503. Cf. Thomas C. Smith, *Political Change and Industrial Development in Japan: Government Enterprise*, 1868-1880, Stanford University Press, 1955.

349. Two English economists have noted that the Japanese Government's attitude towards foreign enterprise was marked by its reluctance to borrow from abroad. It might have been expected that a country interested in rapid industrialisation but lacking capital would have induced foreign investors to provide the necessary financial resources. Apart from two small foreign loans raised in the first years of the Meiji restoration, the government avoided foreign borrowing until after the turn of the century, when the "unequal treaties" were revised and the country's strategic position changed. One of these two foreign loans was for the construction of the first railway; but although it was built with foreign capital, its ownership and control were vested in the Japanese Government. These economists conclude: "In contrast to what happened in China, neither in communications nor in mining were foreign concessions granted." G.C. Allen and A.G. Donnithorne, *Western Enterprise in Far Eastern Development*, London, 1948, p. 224. Also, E.P. Reubens, "Foreign Capital in Economic Development: A Case Study of Japan," in *Modernization Programmes in Relation to Human Resources and Population Problems*, Milbank Memorial Fund, 1950, pp. 115ff. In Japan there was no foreign borrowing until economic development was well under way. It was initiated and financed at home throughout the difficult early states and subsequent borrowing was connected with the Russo-Japanese war. W.W. Lockwood, *The Economic Development of Japan*, pp. 253-4.

For the beginnings of the modern Japanese textile industry under state patronage cf. Shigeto Tsuru, "Economic Fluctuations in Japan, 1868-1893," *The Review of Economics and Statistics*, Vol. XXIII, 1941. Also the work of K. Seki, *The Cotton Industry of Japan*, Institute of Pacific Relations, 1958.

350. *op. cit.*, p. 246. Also Montagu-Chelmford Report, *op. cit.*, pp. 266-9

351. N.B. Jansen, *The Japanese and Sun Yat Sen*, Harvard University Press, 1954.

their administrations, created an army and a fleet, organised their finances, and have done all this is the space of fifty years."[352]

The liberal economic impact on India would have been salutary even if it had only been absorbed by List, Carey and the Japanese nation builders. Today they are still pertinent — as witnessed in the pseudo-liberal revivalism of certain powerful groups within and external to India's Congress party. However, the lessons of the liberal epoch in the period of India's enslavement is instructive since it floodlights the perils of constructing economic models and applying them to countries where their chances of fulfilment are non-existent.

In a broader setting, the extent to which economic liberalism failed to take roots in Asia has been elaborated upon — albeit inadequately — by Hubertus J. van Mook former Dutch Governor-General of Indonesia when he noted that the age-long influence of colonialism failed to instil its ideological engineering into the minds and habits of the colonial peoples. The colonial apparatus of finance, commerce and production "remained an alien, undigested and indigestible element." Admittedly Dutch colonialism created and developed plantations, opened up enclaves and spawned a communications network, "but it hardly awakened a new economic initiative" since imperialism could not generate "social solidarity, the public spirit, and the economic energy that were necessary for a vigorous resurgence."[353]

Such "vigorous resurgence" needed a more congenial soil to come to fruition. That by and large the formerly captive nations of Asia are embarking on economic planning is imputable to the fact that the freedom of this new order dovetails with their regional needs and aspirations.

But even at the height of liberal paramountcy, structural changes were slowly and imperceptibly proceeding within the body of the liberal world economy, of which India was now an integral part. After 1873 these changes were more sharply focused.

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352. Quoted in K.M. Panikkar, *Asia and Western Dominance*, p. 278.

353. Quoted in S.P. Hayes, "Personality and Culture Problems of Point IV," *The Progress of Underdeveloped Areas*, Chicago University Press (ed. by B.F. Hoselitz), 1952, pp. 139-40. Also J.S. Furnivall, *Colonial Policy and Practice: A Comparative Study of Burma and Netherlands India*, New York University Press, 1956, pp. 276-80, 296-312, 419-30.

The interval between Hobson's heretical constructs and Ricardo's *Principles* is about eighty years: it is a time gap that separates the spectacular ascent of a doctrine, that soon became omniscient, and its no less precipitous decline.

By the end of the century the rumblings of revolt were already audible, and the disintegration of liberal economic universalism was gathering speed. Its orderly retreat after 1873 turned after 1917 into a rout.

Little did the authors of the *Montagu-Chelmsford Report* realise, when they stated in 1918 that few Indian intellectuals could be called liberals, that Victorian economic liberalism was thrashing on its death-bed, and that with the dawn of a new age, new economic ideologies and new ideologues had arisen. And what was true of the intellectual élite of India was no less true of its counterparts in China and other Asian countries.

But then the tiny anti-liberal rivulet had swollen into a mighty current sweeping all before it — and among those swimming with the flow could be discerned J. M. Keynes, late of the Indian Civil Service. Such a convert was now an accurate measuring rod of the colossal force behind the universal revolt against economic liberalism.

If only the genius of Ricardo could have glimpsed into the womb of time and foreseen the parturition of dramatic events one hundred years ahead!

4

Morphology of International Investments

International trade, international investment and industrialisation were the trinity around which economic liberalism revolved from the end of the Napoleonic wars to the imperialist holocaust of August 1914. The three became indissolubly linked to a point where it becomes difficult to dissociate them, even for analysis.

Given the nature of the basic structural foundation on which the nineteenth century world economy rested, it would be unrealistic to have expected that this imposing edifice with its ideological super-structure was part of a permanent constellation of forces capable of weathering imperial disintegration that had become clearly manifest at the end of the Great War.

The apparently smoothly functioning nineteenth century economic mechanism was closely allied to the broad sweep of Victorian liberal philosophy which permeated every pore of its social and industrial civilization. Although that dominant philosophy mirrored — at any rate in the United Kingdom — the essential needs of ascendant capitalism in its germinal period, it had become an anachronism with successive organic and institutional changes.

It cannot be argued that economic liberalism, as an engine of economic growth, and the objective price mechanism that was its central nucleus, were a failure. As far as the underdeveloped communities of European origin were concerned, it was successful as industrialisation in the USA, Canada and Australia revealed.

Confronted, however, with the underdeveloped regions of Africa and the immense geo-demographic mass of Asia and Latin America it failed to come to grips with crucial economic problems, and so release the human springs of energy that lay dormant within them. It is this which

belies Jacob Viner's fallacy when he asserts that "the nineteenth century international flow of capital, despite its unregulated character and despite the fact that it was motivated almost wholly by considerations of private profits, was one of the many great blessings which cupidity has procured for mankind."[354] Blessings for whom?

These "blessings," for Asia, Latin America and Africa certainly did not embrace balanced growth: the seeds were sown, rather, of rivalry, suspicious, resentments and fanaticism; such was the poisoned harvest reaped by these regions. In this chapter we examine the mechanics of capital accumulation and the failure of liberalism in the colonial, semi-colonial world in what is familiarly known today as the underdeveloped areas in the decades immediately following the Great Depression of the 1870's.

The pre-1914 world economy, welded together by the all-embracing gold standard, seemed to the overwhelming majority of theorists of that time to be an immutable law. The decisive role which Britain played, its technological leadership, particularly in the iron and steel, coal and textile industries, maritime transport and insurance, was drawing to its close by the end of the century. Up to that time, a considerable part of her purchases abroad had been financed by invisibles: freight, insurance,

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354. Jacob Viner, "International Finance in the Post-War World," *Lloyd's Bank Review*, October 1956. For a similar view, *cf.* R. Nurkse, "The Problem of International Investment in the Light of Nineteenth Century Experience," *Economic Journal*, December 1954 ad his last lectures,*Patterns of Trade and Development* , Wicksell Lectures, Stockholm, 1959. Also the sources for nineteenth century international investment practices, N.S. Buchanan, "International Finance," *Survey of Contemporary Economics*, Vol. II, ed. B.F. Hailey, New York, 1952; P. Hartland, "Private Enterprise and International Capital," *Canadian Journal of Economics and Political Science*, February 1953; Sir Arthur Salter, "Foreign Investment," Essays in International Finance, Princeton University Press, 1951; A.H. Imlah, "British Balance of Payments and Export of Capital 1916-1913," *Economic History Review*, 1952, Vol. v, No. 2. The same author's *Economic Elements in the Pax Britannica—Studies in British Foreign Trade in the Nineteenth Century*, Oxford U.P., 1958. An interesting formal statistical enquiry although the author fails to probe the mechanics of the exploitative process.

The opinion of these economists that the volume of capital exports to a borrowing country constitutes an index of the assistance given by a lending country to a debtor underdeveloped country is one which has been challenged by J. Knapp, who argues that foreign capital played an unimportant role in the development of the Canadian and American economics. Much of the borrowing of these countries was superfluous. "Capital Exports and Growth,"*Economic Journal*, September 1957.

brokerage and banking earnings. And the gold standard reflected the temporary conditions of British financial hegemony, the unity of the world market and its price flexibility, the great mobility of capital across frontiers, the relative freedom of migratory movements, especially in the European-American orbit,[355] and rise in industrial production and trade in the capitalist countries. No less primorvial was the stability of the British currency, which had been wedded to the gold standard since 1821. Paradoxical as it may seem, it was *par excellence*, the period of the dictatorship of bourgeois liberty, and Britain was "the conductor of the international orchestra."[356]

On a social plane nowhere was the smugness, arrogance and illusions of the average British bourgeois, seemingly oblivious to the cracks that were fissuring the structure of international capitalism, no where better expressed than by J.M. Keynes, after the four-year holocaust and the post-war crises had scissored an imagined state of fixity and permanence.

> "What an extraordinary episode in the economic progress of man that age was which came to an end in August 1914 . . . . . He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality, could despatch his servant to the neighbouring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters without knowledge of their religion, language or customs, bearing coined wealth upon his person, and would consider himself greatly aggrieved and much surprised at the least interference. But, most important of all, he regarded this state of affairs as normal, certain and permanent, except in the direction of further improvements, and any deviation from it as aberrant, scandalous and avoidable. The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion, which were to play the

355. The thesis of Thomas Brinley is very suggestive: "No interpretation of the lack of balance within the Atlantic economy, which has become so acute since 1945, is satisfactory unless it recognises the extreme difficulty which the economy has found in adjusting itself to the enforced international immobility of labour." *Migration and Economic Growth*, Cambridge University Press, 1954, p. 201.

356. J.M. Keynes, *A Treatise on Money*, Vol. II, p. 307.

serpent to this paradise, were little more than the amusements in his daily paper and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalisation of which was nearly complete in practice."

But crises, wars and the sedulous preparations for wars, and the contradictions of imperialism were to inaugurate far-reaching structural changes in international capitalism. Nineteenth century international trade, and in particular that of the United Kingdom with the rest of the world, was in the main complementary.[357] Its main characteristic being the exchange of manufactured goods of the industrialised regions for raw materials from elsewhere.[358]

Changing percentage shares of certain countries in their combined total exports of manufactures during the period 1899-1937 are shown in Table 13.

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357. W.A. Brown, *The International Gold Standard Re-Interpreted*, 1914-1934, (National Bureau of Economic Research), New York, 1940, p. 133. *Cf.* the critique of the alleged idyllic operation of the system of fixed exchange rates before the First World War in the U.N. *Economic Survey of Europe in 1957*, Chap. iv, p. 3. The reasons why these conditions associated with the economic Integration of the gold standard are unlikely "to rise again" is that firstly "people accepted then, to a degree unknown now, recessions and other misfortunes as acts of God rather than of man and, secondly, that the tolerably successful period under the gold standard from the middle 1890's to 1914 was one of rapid economic expansion and inflation in the international economy." U.N. *Economic Survey of Europe in 1958*, Chap, III, p. 31.

358. The young Engels had noted this complementarity and observed in 1845 that "die deutsche Industrie macht jetzt grosse Anstrengungen, die amerikanische hat sich mit Riesenschritten entwickelt. Amerika mit seinen unerschöpflichen Hilfsmitteln. . . hat in weniger als zehn jahren eine Industrie geschaffen, welche in groberen Baumwollwaren schon jetzt mit England konkurriert, die Englander aus dem nord-und sudamerikanischen Markt verdrangt hat und in China neben der englishen verkauft . . . ." But this threat was as yet remote. *Die Lage der arbeitenden Klasse in England* (1844), Marx-Engels Gesamtausgabe, Berlin, 1932, Band 4, pp. 278-9.

These observations were to be confirmed several decades later. "The superiority of the United States to England is ultimately as certain as the next eclipse." *The Economist*, 8 March 1851. For Cobden's extraordinary insight into the future trends of the American economy, see J. Hobson, *Richard Cobden, The International Man*, London, 1919 and the earlier biography of J. Morley, *Life of Richard Cobden*, London, 1881.

TABLE 13. *Exports of Manufacturers 1899-1937*

	1899	1913	1937
United States of America	11.2	12.6	19.6
United Kingdom	32.5	29.9	25.0
Germany	22.2	26.4	22.4
France	15.8	12.9	6.4
Belgium	5.6	4.9	5.9
Italy	3.7	3.6	3.6
Japan	1.5	2.4	7.2
Canada	0.3	0.6	5.0
Others*	7.2	6.7	7.5

Source: H. Tyszynski, "World Trade in Manufactured Commodities, 1899-1950," *The Manchester School of Economic and Social Studies*, September 1951.
* Sweden, Switzerland and India.

Unchallenged supremacy of the London capital market saddled the Old Lady of Threadneedle Street with tremendous responsibilities.[359] By modifying the terms on which she was prepared to lend, aided by her own readiness to vary the volume of her gold reserves and the unreadiness of other central banks to vary the volume of theirs, she could to a large extent modify the credit conditions prevailing elsewhere. The observations of the *Memorandum of the Federation of British Industries on Monetary Policy of 1933* indicated to what degree this financial leadership was predicated on Britain's hegemonic status. The world gold standard, as it operated in the pre-war period, it argued, was in fact predominantly a sterling standard, and this system was "shattered" following the mushroom development of other countries.

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359. Under Palmer's guidance, the Bank recognised the importance of the government security market by borrowing on Consols, that is, by selling bonds and repurchasing an equal quantity to be paid for at a later date, and pursuing what is known today as open market policy, Cf. D. W. Dodwell, *Treasuries and Central Banks, Especially England and the United States*, London, 1934, pp. 59-60; G. R. Hawtrey, *The Art of Central Banking*, London, 1932, pp 144-5, 188-9.

The uncontrolled association, through the gold standard of other countries having independent national plans (such as France and Germany) with the British plan was an unstable and highly artificial economic phenomenon, noted the authors. The war shattered that association, "probably foredoomed from the first, to recreate after the war the pre-war international monetary system."

The world in which the gold standard retained its adolescent pristine virtues — flexible exchange rates and price flexibility — belonged to a specific epoch of capitalist development[360] that was to be irretrievably smashed in the post-Versailles period by chronic monetary chaos, the cumulative diffusion of trade and industrial restrictionism, the spectacular increase, and even the more spectacular tumble in international investments; intensified drives for monopolistic beggar-my-neighbour isolationism euphemistically labelled "national self-sufficiency" and "economic autarchy."

Qualitative changes within the capitalist international economy, at a nodal point of growth, seem to have escaped the notice of those theorists who fatuously insist on referring to the pre-1914 days as an age of "economic harmony," in contrast to the period of economic decomposition that followed.

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360. This phase of her superiority linked with the gold standard ended with the outbreak of hostilities when the Asquith government, on 31 July 1914, was compelled to proclaim a week's bank holiday, raising the bank rate to 10%, declaring a moratorium on payment on bank acceptances and commercial paper. S. Stern, *The United States in International Banking*, Columbia University Press, 1951, p. 4

In this respect it is interesting to observe the structural changes both in British capitalism and the changes in economic ideology manifested in wartime financial policy during World War I and II. The difference in approach is best gauged in the changed attitudes towards the rate of interest. R.S. Sayers has, in fact, shown how in 1914-1918 government policy permitted the rate of interest to be decided by market forces, and that London remained the capital market of the world. Rising interest rates, it was assumed, was judged appropriate to meet the swelling government demand for loans, while it was thought that a higher reward for savers might stimulate savings. Such a policy was unthinkable on the eve of World War II. First and foremost because of Britain's lost industrial supremacy, and the fact that World War II was preceded by the difficulties of the inter-war period with problems of debt management and international currency upheavals. Moreover, this period had witnessed the continuous incursion by the Treasury authorities in the money market. *Financial Policy 1939-1945. History of the Second World War*, United Kingdom Civil Series, Her Majesty's Stationery Office, 1956, Chapter I. Also Sir Denis Robertson, "What Has Happened to the Rate of Interest?" *The Three Banks Review*, March 1949.

"International economic integration," wrote one observer, "arose from the fact that the liberal philosophy was dominant in all major trading countries, that a body of ethical maxims commanded universal allegiance."[361] Describing the "common ideology" behind the nineteenth century economy, Buchanan asserts that "the international economy was organically so integrated that prices of goods and services and the financial side of the national economies in general harmonised fairly well with the distribution of real resources and the composition of national output. Change was orderly and gradual . . . within a world possessing a common ideology . . . productive resources seemed sufficiently adaptable to technological changes, shifts in demand and alterations in supply conditions that occurred."[362] Such were the voices of the ruling class orthodoxy.

But the apparently harmonious operation of the pre-war mechanism, which spawned these myths, was in reality anchored in the quicksands of British pre-war financial dominance. Stability mirrored not harmony but Britain's financial supremacy — a supremacy which though not irrevocably dashed by 1914 was to be increasingly and effectively whittled down by the industrial ascent of other imperialist powers.

Imbibing the latest ready-made achievements of British technology and industrial know-how, making their initial launching site from this high level, free from the ballast of obsolescent fixed capital equipment and archaic managerial and industrial organisation, the Germans surged ahead in efficiency and organisational modernity. In Asia, the last quarter of the century heralded the metamorphosis of the feudal kingdom of Japan, who repeated the same experiment, even more swiftly and dramatically and with such imitative competence. Finally, the United States found its backwardness enabled it to take over the best of the Old World and to grab the symbol and reality of technical leadership. In terms of

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361. R. Strauz-Hupé, *The Balance of Tomorrow*, New York, 1945, p. 24.

362. N.S. Buchanan and F.A. Lutz, *Rebuilding the World Economy*, New York, 1947. A similar line of argument is pursued in a United Nations publication. "On the whole, capital movements during the few decades preceding 1914 tended to favour the integration of various national economies into what may be called an expanding international economy in which the flow of goods and services and the settlement of financial transactions were such as to allow free convertibility of currencies." *International Capital Movements during the inter-War Period*, United Nations, New York, 1949, p. 4.

intensified capitalist rivalries, it was, as Alfred Marshall believed, England's misfortune to have triggered the industrial revolution.

It offers a striking parallelism and a glimmer of hope today for those as yet underdeveloped countries now being jettisoned into the vortex of the industrial revolution.

TABLE 14. *Selected Trends in Manufacturing 1870-1938*

	MANUFACTURING CAPACITY WORLD = 100				
PERIOD	USA	GREAT BRITAIN	GERMANY	FRANCE	RUSSIA (USSR)
1870	23.3	31.8	13.2	10.3	3.7
1881-1885	28.6	26.6	13.9	8.6	3.4
1896-1990	30.1	19.5	16.6	7.1	5.0
1906-1910	35.3	14.7	15.9	6.4	5.0
1913	35.8	14.0	15.7	6.4	5.5
1926-1929	42.2	9.4	11.6	6.6	4.3
1936-1938	32.2	9.2	10.7	4.5	18.5

Source:League of Nations, *Industrialization and Foreign Trade*, Geneva 1945, p. 13.

Industrial advance in north-west Europe was quickened by the 1914-1918 war. Changes in productive technique of "the United States, Japan, Canada, and Australia and in other countries during the war were such as might otherwise have required a quarter of a century."[363] Such industrial statistics as are available indicate that in Brazil, South Africa, New Zealand and Finland, as well as Japan, industrial production increased from 1913 to the later twenties by 100% or more. British imperialism's competitive status was shaken by competition in many of her traditional export strongholds and by the shift in demand from cotton manufacturing to artificial silk, and from coal to petroleum and hydro-electric power.

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363. W.A. Brown, *op. cit.* p. 137.

Global implications of the heightened economic antagonisms that were to batter this mythical stability were far from being veiled in the pre-war period, notwithstanding that Britain, as the world's banker, continued to absorb its imperial tribute either in the form of reinvestments or by mounting import surpluses.[364]

Although the generalisation may be hazarded that free trade is the ideology of competitive capitalism, the proviso should be added that its practice becomes feasible only under certain specific historical conditions.

It is perverse to speak of the harmonious policies of competitive capitalism in the context of international relations, for in so doing we identify the pre-World War I international economy with a system of unfettered individual enterprise: a system where economic and social relations were ruled by contract and nations free agents in the conduct of their affairs. It is thus made synonymous with *laissez-faire*.[365] While we may sympathise with Harrod's nostalgic yearning for a non-existent past, a "return" to the "virtues" of economic liberalism in the heyday of its splendour is a delusion. Embittered by the inter-war collapse of international capitalism and by post-war 1945 upheavals, Harrod hankers after the settled outlook of nineteenth century political economy and claims that "we have no body of received opinion, fairly widely understood, to take the place of the old doctrine . . . . Indeed it might well be argued that we should be better off with the old Political Economy, which succeeded for a long time in retaining its hold upon the mind of the average well-informed citizen."[366] In short, the necessity for ideological tranquillizers.

Likewise Haberler exhorts us to return to the sanctity of received doctrine and the theory of comparative costs since there is no other alternative to the price mechanism, for these problems of allocation are much too complex "to be solved in any other way; they cannot be settled by a

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364. See Bernard Shaw's play, *The Apple Cart* for an amusing yet accurate historical description of this.

365. A German definition of capitalism: "Capitalism has the private or individualistic order as its premise and is inconceivable without it." *Handworterbuch dr Staatswissenschaften*, Berlin, 1923—a definition originating in a country in which monopolistic transformation was earliest in evidence.

366. R. Harrod, *Are These Hardships Necessary?* London, 1947.

planning board and the outcome can hardly be foreseen by a statistical office . . . . There is simply no rational substitute for the market mechanism."[367] Indeed, but who are the masters and manipulators of this "market mechanism?" And his German academic counterpart laments: "Let us be strong enough to shake off the dead pattern of state interventionism, protectionism, super-cartels and great concerns."[368] Confronted with such generous sentiments, it may be worthwhile pointing out that the Manchester of the 1830's was hardly the graven image of the Weimar Republic or Erhard's Germany.

In similar vein, Zinkin of the Lever Brothers Trust, opts for the "free enterprise" world as it existed in the pre-war period. If the foreign investor is "once more to perform his wealth-creating role on the scale of the days before 1914," he argues, "he must be given back the freedom to decide and the freedom to accumulate which then was his. . . ."[369] Hayek, one of the staunchest acolytes of the liberal faith, brandishes the price mechanism as an instrument of economic calculus and market rationality and argues that its operation depends on competition. "The price system

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367. *Proceedings of the Academy of Political Science*, Vol. xxv, May 1953, No. 3. *The Foreign Trade of Western Europe*, William A. Orton, *The Economic Role of the State*, University of Chicago Press, 1950.

368. A. Weber, *Weltwirtschaft*, Berlin, 1950. The reason why the advocacy of *laissez-faire* has survived in the domain of international economics is very evident. It is theoretically the simplest of things to show that the abuses of tariffs, quotas and other aggressive "beggar my neighbour" policies would not be in the interest of the vast majority of people. The fact that certain aggressive instruments of commercial policy are abused does not justify the conclusion that the removal of all these instruments would inevitably lead to increased economic welfare. The ability to prove that laissez-faire policy is the best economic policy in the best of all possible worlds is accomplished by ignoring the existence of monopolistic phenomena and the problems associated with cyclical disturbances. But it is precisely these forces which have been relegated by two well-known texts on the theory of international trade. Bertil Ohlin, *Interregional and International Trade*, Harvard University Press, 1933, and G. Haberler, *The Theory of International Trade*, London, 1936. For an intelligent corrective to this omission, see W.E. Beach, "Some Aspects of International Trade Under Monopolistic Competition" in Chapter x, *Explorations in Economics*, New York, 1936.

369. M. Zinkin, *Problems of Economic Development in Asia*, Institute of Pacific Relations, New York, p. 28.

will fulfil (its) function only if competition prevails, that is, if the individual producer can adapt himself to price changes and cannot control them."[370] In a world economy dominated by TNCs this theorem is inapplicable.

These perorations must not be discarded as the poached platitudes of Gladstonian liberalism: they must be taken seriously, if only because of their resurgence in America foreign economic policy, and its repressive corollaries in the Third World.

Many critics have pointed out that the international economic relations embodied in the provisions of the Bretton Woods Agreement, the Anglo-American Loan Agreement and the American Loan Trade Policy, are mere sophisticated forms of *laissez-faire* revivalism, orchestrated by US hegemonism.

Commenting on this in a private letter to Sir Percival Liesching in 1943, at the time of the Washington Conference, Lord Keynes wrote: "Thanks for your note on state trading . . . . As you know, I am afraid, a hopeless sceptic about this return to nineteenth century *laissez-faire*, for which you and the State Department seem to have such a nostalgia.

I believe that the future lies with:

1. State trading for commodities;
2. International cartels for necessary manufactures, and
3. Quantitative import restrictions for non-essential manufactures.

"Yet all these future instrumentalities for orderly economic life in the future you seek to outlaw."[371]

The pre-1914 decades saw the spectacle of large-scale economic concentration, industrial co-ordinating committees, monopolies as well as their long shadows, "administered prices," "contrived prices" and "price

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370. F.A. Hayek, *The Road to Serfdom*, London, 1944.

371. R.F. Harrod, *Life of John Maynard Keynes*, London, 1951, p. 567. The work of R.N. Gardner, *Sterling Dollar Diplomacy: Anglo-American Collaboration in the Reconstruction of Multilateral Trade*, Oxford University Press, 1956.
This work gives us profound insights into the Anglo-American antagonisms that had arisen over differences in economic philosophy which in turn were explicable by the various changes in the structure of their respective economies. What Keynes had in mind (and what he feared) in his note to Liesching is best summed up in the statement of Sumner Welles then Under-Secretary of State. R.N. Gardner, *op. cit.*, pp. 42-4.

leadership" whose cardinal object was the muzzling of the automaticity of the price mechanism. In the world of our mega TNCs, the pre-1914 international economy was theoretically closer to the Proudhonian model than it was to John Stuart Mill's.[372] The desirability of unrestrained competition was now being questioned, and it is easy, as Galbraith suggests, to understand the depths of the nostalgia for such a mechanism, however rigorous its requirements. It is also possible to understand how the conviction that its rules were being violated could "leave a community, which had long used this system as a reference point in interpreting its economy, with a sense of profound disquiet."[373]

Long before the publication of Chamberlain's[374] and Robinson's[375] contributions to the theory of imperfect competition, the liberal assumptions remained unchallenged by the neo-classical world of Alfred Marshall. Philosophically it was rooted in the assumption of classical liberalism as modified by Marshall and reinforced by Social Darwinism. One of these was the theory of pure competition. "The economists," remarks Joan Robinson, "misled by the logical priority of perfect competition in their scheme, were somehow trapped into thinking that it must be of equal importance in the real world. The 'good entrepreneur' was the purely competitive one, and the chief virtues of our society were attributed to the highly competitive nature of its early economy."[376]

In their well-known monograph, Berle and Means asserted "that competition has changed in character and the principles applicable to present

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372. "Every restriction of competition," argued this high priest of classicism, "is an evil, and every extension of it, even for the time injuriously affecting some class of labourers, is always an ultimate good." *Principles*, Ashley ed., p. 793.

373. I. K. Galbraith, *The Concept of Countervailing Power*, Cambridge, Massachusetts, 1952, p. 25.

374. E.H. Chamberlain, *The Theory of Monopolistic Competition*, Harvard University Press, 1933. An immense literature has developed on this concept. *Cf.* E.H. Chamberlain, *Quarterly Journal of Economics*, August 1948 and November 1956, for an extensive bibliography.

375. Joan Robinson, *The Economics of Imperfect Competition*, London, 1933.

376. J. Robinson, *op. cit.*

conditions are radically different from those which apply when the dominant competing units are smaller and more numerous. The principles of duopoly have become more important than those of free competition." Because most prices involved monopoly elements, the authors added, it was monopolistic competition that most people thought of in connection with the simple world "competition." Competitive theory was unreal "because it fails truly to represent the forces at work in the economic system."[377]

The Historical Setting

As in previous chapters we have placed our analysis in a given historical frame, in the conviction that economic growth cannot be dissociated or understood in isolation from particular institutional conditions related to past developments. However obvious and elementary this may appear, theory does not attempt to test its underlying assumptions against the backdrop of historical experience in the less developed regions.

A final general comment seems relevant in what follows. The fundamental institutional orientation of our approach is that mutations in world trade generally reflect mutations within the social relations of production. Thus the gradual abandonment of *laissez-faire* before World War I cannot be explained solely by "external forces" — acting, let us say, on the British economy, or by the crass brutality of international trade practices between Versailles and Munich without mentioning the vital internal structural changes within the economies of the imperialist powers cradled by the Great Depression in the last quarter of the nineteenth century.

The century-and-a-quarter that separated Smith's scathing denunciations of the vestiges of mercantilism and Hobson's tirades against the neo-mercantilist policies of the European powers marked the distance between an age of primitive accumulation and one in which capital export and monopolistic competition assumed new perspectives after the crisis of the 1870's.

In our exposition, Britain will be given centre stage, being the main bulwark of nineteenth century liberalism and the hub of the global

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377. A.A. Berle and G.C. Means, *The Modern Corporation and Private Property*, New York, 1933, p. 45. The voluminous mass of T.N.E.C. Reports and Hearings have been synthesised by D. Lynch, *Economic Concentration*, Columbia University Press, 1946.

economy. This enables us to observe the changes in its liberal anatomy far more sharply than in the United States and Germany.

Outgrowths of the Great Depression

If the causes leading to the Great Depression of 1873-1896[378] are still obscure, its cumulative effects on the economic and industrial structure of the British economy are less so. The drastic effect of competition in cutting prices and its effects on profits were obvious. Commenting on this aspect of the crisis, Rostow says that it led industrialists "to search for an escape" from their reduced profit margins "in the insured foreign markets of positive imperialism, in tariffs, monopolies, employers' association."[379]

The Parliamentary Committee of 1886 attributed the crisis of the seventies to the fact that British industrialists "had gone far beyond their rivals in the rashness with which factories have been multiplied."[380]

Already there was impressive evidence that the trust and cartel had assumed a new significance in the British iron and steel industry, although the *Final Report of the Royal Commission on the Great Depression* ignored this newly emergent force.[381]

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378. What was known as the Great Depression was not an extended cyclical contraction as in 1929-1932. H.L. Beales has even argued that the term "Great Depression" is a misnomer judged by standards of output and real wages. "The Great Depression in Industry ad Trade,"*Economic History Review*, October 1931. The reports of the Royal Commissions revealed various secular trends, however, affecting every sector of economic activity. Evidence pointed to a widening gap between the bank and money-market rates, a fall in all rates of interest, a fall in equity prices, a shift in the direction of long-term investment from overseas territories to the home market, a fall in profit margins and prices, an increase in output and real wages and a fall in the export trade, Sir Robert Giffen, *Inquiries and Studies*, Vol. I, pp. 104-06. *Cf.* H. Rosenberg, "Political and Social Consequences of the Great Depression of 1873-1896 in Central Europe," *Economic History Review*, Vol. xii, 1943.

379. W.W. Rostow, *British Economy of the Nineteenth Century*, Oxford University Press, 1948, p. 89.

380. Lord Brassey, *Papers and Addresses*, London, 1894, pp. 214-15.

381. See D.L. Burn, *The Economic History of Steelmaking* 1867-1939, Cambridge University Press, pp. 225-9; also H.W. Macrosty, *The Trust Movement in British Industry*, London, 1907, p. 57.

By 1889 Thorold Rogers, in contrast to his Cambridge colleague Edgeworth, saw that "the beneficial operation of competition was at an end."[382] In the case of Britain the tariff was not the catalyst that induced these changes. "The British trade agreements and combinations," wrote Clapham, "were sufficient proof that a tariff was not, as was said of the American trusts, the father and mother of them all," and he added that the reaction of British capitalists as the slump deepened, and as they "lost some of their old individualistic confidence," was that "there must be some value in these things."[383]

Britain's attitude to restrictive practices was not due to any "innate individualism" on the part of its businessmen, for they were no more individualist than their American or German counter-parts, despite Liefmann's belief that the belated transformation of British capitalism was to be explained in that way.[384]

Indeed, English experience with cartels has shown that local manufacturers tried to form monopolistic or quasi-monopolistic organisations whenever it helped to avoid, competition.[385] The well-known shipping cartels

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382. *Industrial and Commercial History of England*, London, 1892, p. 377.

383. J. Clapham, *An Economic History of Modern Britain: Machines and National Rivalries* (1887-1914), Cambridge University Press, Vol. III, p. 22.

384. R. Liefmann, *Schutzzoll und Kartelle*, Jena, 1903, p. 7.

385. Anti-monopolistic tendencies played a significant role in the revolution of 1640. Sir John Colepepper echoed a deeply felt criticism in the House of Commons, on 9 November 1640, when he said: "I have but one grievance more to offer unto you; but this one compriseth many: it is a nest of wasps, or a swarm of vermin, which have over-crept the land, I mean the monopolers and polers of the people: these like the frogs of Egypt, have got possession of our dwellings, and we have scarce a room free of them; they sip in our cup, they dip in our dish, they sit by our fire; we find them in the dye-vat, wash-bowl and powdering-tub; they share with the butler in his box, they have marked and sealed us from head to foot. Mr. Speaker, they will not bate us a pin: we may not buy our own cloths without their brikage. These are the leeches that have sucked the commonwealth so hard, that it is almost become hectical." W. Cobbett's *Parliamentary History of England*, Vol. II, p. 656.

Also Adam Smith, *Wealth of Nations*, Book IV, Chapter II; Babbage, *Economy of Manufactures*, London, 1833, p. 312. It was this constellation of things which Smith had in mind when he referred to that "order of men, whose interest is never exactly the

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of the 1870's[386] and the establishment of the nitrate cartels were started by English concerns.[387]

The incidence and growth of British monopolistic concentration are not to be explained by any inborn racial propensities for individualism. It was less spectacular, in fact, than either the United States or Germany, one of whose statesmen, the industrialist Walter Rathenau, said in 1909 that *"three hundred men, all of whom know one another, direct the economic destiny of Europe and choose their successors from among themselves."*[388] By that time, monopoly was a supreme force in all advanced capitalist countries. In the American economy, in particular, industrial concentration after 1880 raced ahead with giant strides.[389] "The mere size of the consolidations which have recently emerged," commented the Clark brothers, in 1912, "is enough to startle those who saw them in the making. If the carboniferous age had returned and the earth had repeopled itself with dinosaurs, the change made in animal life would have scarcely seemed greater than that which has been made in the business world by these monster-like corporations."[390]

(Continued from page 187) same with that of the public; who have generally an interest to deceive and even to oppress the public and who accordingly have, upon many occasions, both deceived and oppressed it" Marshall believed that "in Adam Smith's time, England was full lof trade combinations, chiefly of an informal kind, i.e. confined to very narrow areas; but very powerful within those areas, and very cruel." "Some Aspects of Competition," *Memorials of Alfred Marshall*, ed. A.C. Pigou, p. 267.

386. *Report of the Royal Commission on Shipping Rings* (1909) and D. Owen, *Ocean Trade and Shipping*, London, 1914, p. 66; Clapham, *op. cit.*, p. 314.

387. *Report of Committee on Trusts* (Cmd. 9236), London, 1919, p. 17.

388. M. Lowenthal, *The Jews of Germany*, New York, pp. 321-2.

389. Joe Bain, "Industrial Concentration and Government Anti-Trust Policy," in H.F. Williamson, Ed., *The Growth of American Economy*, New York, 1944.

390. J.R. Clark and J.M. Clark, *The Control of Trusts*, New York, 1912, pp. 14-15. There had been much criticism of consolidations in the 1890's, resulting in 1890 in the Sherman Anti-Trust Act. In 1894 appeared Henry Demarest Lloyd's well-known anti-monopoly work, *Wealth against Commonwealth.*

Lewis Corey's monograph reveals the extent to which American finance capital has been integrated by the House of Morgan. "While the House of Morgan represented finance penetrating industry," he writes "Standard Oil represented the transformation of industrial capitalists into financial capitalists."[391]

The swift shift towards economic concentration and the rise of what the Pujo Committee of the House of Representatives called the "money trust" struck a keynote of alarm among the nation's legislators. The committee's report, published in 1913, declared that "if by a money trust is meant an established and well-defined identity and community of interest between a few leaders of finance which had been created and is held together through stock holdings, interlocking directorates, public service and industrial corporations, and which has resulted in a vast and growing concentration of control of money and credit in the hands of a comparatively few men — your committee has no hesitation in asserting as a result of its investigation that this condition, largely developed within the past five years, exists in this country today."[392]

Financial consolidation had scaled enormous pinnacles and American finance, in Corey's view, instead of turning New York into the world's money market under the leadership of the House of Morgan, "proceeded to consolidate, combine and recapitalise industry, establishing more firmly the foundations of industrial concentration and financial control."[393]

And John D. Rockfeller (addressing a group of Sunday school children in 1904) could sermonise: "The growth of a large business is merely the survival of the fittest . . . . The American beauty rose can be produced in the splendour and fragrance which bring cheer to its beholder only by sacrificing the early buds which grow up around it. . . . This is not an evil

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391. *The House of Morgan*, New York, 1930, p. 259. For Standard Oil, cf. the first two chapters in Harvey O'Connor, *The Empire of Oil*, New York, 1955.

392. "Money Trust Investigations", reprinted in H.U. Faulkner and Felix Flugel, *Readings in the Economic and Social History of the United States*, New York, 1929, pp. 597-700.

393. *op. cit.*, p. 230. Also M. Josephson,*The Robber Barons*, New York, 1934. The doctrinal inspiration behind the drive to monopoly was undiluted *laissez-faire*. *Cf.* R. Hofstadter, *Social Darwinism in American Thought*, Boston, 1955.

tendency in business. It is merely the working out of a law of nature and a law of God." The Standard Oil Company became the executive of divine benignity.

In the classical cradle of *laissez-faire* the road that led to the victory of monopoly was less dramatic. British monopoly moved stealthily with British discretion — a point not missed by the British Royal Commission. "What was notable among British consolidations and associations was not their rarity or weakness so much as their unobtrusiveness. There is not much display in the window, but there is a good selection inside."[394]

Indeed, monopolisations are not external tumours but endemic manifestations, evidenced at all stages of capitalist growth, although more clearly discernible in the later stages.

Combinations "in restraint of trade" were thus no novel creations of the disordered post-war world. In their report the Commissioners, who included John Hobson and Sidney Webb, concluded: "We find that there is at present time in every important branch of industry in the United Kingdom an increasing tendency to the formation of Trade Associations and combinations having for their purpose the restriction of competition and the control of prices. Many of the organisations which have been brought to our notice have been created in the last few years, and *by far the greater part of them appear to have come into existence since the end of the century.*"[395] (Italics mine)

The lunge towards concentration and consolidation was symptomatic of industries utilising advanced highly capitalised technology, like the chemical industry. This corporate annexationist thrust was stimulated by science and its application to industry.[396] This also explains why

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394. *Report of Committee on Trusts* (Cmd. 9236), London, 1919, p. 17.

395. *Ibid.*

396. This trend was sharply visible in the case of the chemical industry. Levy wrote: "According to a quotation of the Dresdner Bank, in the German synthetic dyestuff industry i 1927-1928 about 100% of the actual national production was controlled by I.G. Farben; in England, Imperial Chemical Industries Ltd. controlled about 40%; in France, the Etablissement Kuhlmann about 80% of the national output. Of the production of synthetic nitrogen, the German trust was responsible for about 85% of the national output, while Imperial Chemical Industries controlled about 100%, Etablissement

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Germany[397] and the United States, which began their industrialisation later, found more appropriate means of industrial "co-operation," or corporate fusions.

Even in the case of the early pioneers of industrialisation as cotton textiles, which were basically small unit undertakings with origins going back to the end of the eighteenth century, the same trend was discernible. Ashton and Sir Sydney Chapman's researches in 1914 revealed that "the typical size of a spinning firm more than doubled between 1884 and 1911."[398] The technical structure of the industry, however, put obstacles in the way of effective "co-operation."[399] Likewise, the iron and steel industries showed that "the average output capacity per firm (in pig-iron manufacture), taking into account both the size of blast furnaces and the number owned by each business," more than doubled between 1882 and 1913, and nearly trebled between 1882 and 1924.[400]

Wartime conditions telescoped these changes and, as the *Balfour Report* stated in the 1920's, "there is a strong tendency, both in this and other

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(Continued from page 190) Kuhlmann about 30%, the Montecatini trust in Italy about 60% and th E.J. DuPont de Nemours concern in the USA a certainly dominant percentage of national production."*Industrial Germany: A Study of its Monopoly Organization and the Control by the State,* Cambridge University Press, 1935, p. 66.

397. *The Final Report of the Committee on Commercial and Industrial Policy* after the War emphasised that Germany enjoyed a superior commercial organisation, "a superiority dictated by and conditioned by the modern tendency towards concentration." It adds that in the newer branches of industry, Germany started with all the advantages of a modernised technology and without the handicap of a traditional organisation. Besides, attributing this tendency towards concentration land to protection, it says that in Germany there was a much closer connection between finance and industry. This has been one of the reasons why the "Safeguarding of Industries Act" of 1921 encouraged the emergence and diffusion of large concerns.

398. *Journal of the Royal Statistical Society*, April 1914.

399. *Committee on Industry and Trade, Factors in Industrial ad Commercial Efficiency*, p. 4. In 1926, twelve large groups were responsible for nearly half the pig-iron output and nearly two-thirds of the steel, and in 1939, 39% of British iron and steel was produced by the three largest firms. H. Leak and A. Maizels, *Journal of the Royal Statistical Society*, 20 February 1945.

400. *Committee on Industry and Trade, Factors in Industrial and Commercial Efficiency*, p.4.

industrial countries, for enterprises engaged in production to increase in average size, a tendency which shows no sign of reaching its limit."[401]

The idea that monopolistic consolidation was "noxious" and "purely alien"[402] to English industry was ridiculed by the authors of the *Final Report*. After commenting on the "very doubtful success" of American anti-trust laws they went on to say that "those who regard such forms of industrial organisations as inherently noxious, from the point of view of the general public, will of course welcome any opportunity of investigation as a step towards control or even suppression." The committee repudiated such conclusions: "This attitude was once very commonly met with, but so far as we can judge it is a form of opinion which, in the light of more mature experience, is rapidly becoming obsolete, and it finds no echo amongst the members of this Committee."[403]

Similarly, the trend towards banking amalgamations made rapid headway even before 1914, and the pace was quickened during the war, giving rise to serious concern. The *Colwyn Report*[404] stressed that in view of the exceptional extent to which the interests of the whole community depended on banking arrangements, some measure of Government control was deemed essential. An anti-merger bill was drafted with the aim of damning the flow, but later withdrawn when the banks and the Treasury reached an agreement that there would be no further amalgamations without the latter's prior approval.

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401. *Committee on Industry and Trade*, p. 176.

402. P. Fitzgerald, *Industrial Combination in England*, London, London, 1927, p. 1. Perhaps. But a vice that was nonetheless being indulged in while condemned by its participants.

403. *Final Report* (Cmd. 3282), 1929, p. 191.

404. *Report of the Treasury Committee on Bank Amalgamations* (Colwyn Report), London, 1918, p. 7. Also J. Sykes, *The Amalgamation Movement in English Banking*, London, 1926.

The *Macmillan Report* did not view monopolistic upsurge with the same jaundiced eye; like the *Balfour Report,* it deplored the absence of integration between banking and industrial interests and welcomed the disciplinary force of economic mergers, in order "to keep in the van of progress." It noted that in the last "few years it would have been of high value if the leaders, for instance, of the steel or shipbuilding or other industries had been working in the closest co-operation with powerful financial and banking institutions in the City with a view to their reconstruction on a profitable basis."[405]

If the Great Depression and modern technology gave new impetus to those forces of monopolistic organisation, it also triggered a lethal parallel force. Together, the changes triggered by them spelled the end of economic liberalism both in its theoretical and practical implications.

Protectionism was not merely the antithesis of liberalism—it was its absolute negation; it was also its outgrowth.

With the rumbling of the crises of the eighties and the drive to monopoly, we hear protectionist clamour against the "sinister hand of the foreign assassin." The Fair Trade league, founded in 1881, numbered among its ideologists Randolph Churchill and Joseph Chamberlain.[406] Addressing a Blackpool meeting in 1884, the former fulminated that the British economy was "suffering from a depression of trade extending as far back as 1874" and that up "to the present time there is no sign of revival to be seen amongst our capitalists." After listing the various industries affected by the slump, he asked: "What has produced this state of things? Free imports? I am not sure, I should like an inquiry; but I

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405. *Report of the Committee on Finance and Industry* (Macmillan Report), London, 1934, pp. 164-5.

406. On the significance of the "Fair Trade Movement" in the context of the Great Depression, see J.L. Garvin, *Life of Joseph Chamberlain*, Vol. II, p. 122, London, 1933; also Sir T.H. Farrer, *Free Trade versus Fair Trade*, London, 1886. The author was Permanent Secretary to the Board of Trade.

suspect free imports of the murder of our industries much in the same manner as if I found a man standing over a corpse and plunging his knife into it I should suspect that man of homicide, and I should recommend a coroner's inquest, and trial by jury."[407]

The British economy had drifted a long way from Cobden's celebrated definition[408] of the free trade millennium, contemptuously labelled "a bagman's paradise" by his choleric contemporary Thomas Carlyle.[409]

It was no accident that when Chamberlain launched his tariff offensive his most ardent backers came from industrialists of the Midlands and the Black Country — the very heartland of l*aissez-faire* a few decades earlier. His friend John Morley tells us that in his early years Chamberlain was an evangelist of the doctrine of John Stuart Mill and the classicists, but even in those days "his free trade convictions . . . were only skin deep . . . . *Au fond*, he looked at the problem from the manufacturer's point of view, which welcomes a tariff as an instrument of monopoly: indeed, in his own business he effected a transaction with American producers in the nature of a commercial treaty, whereby he accepted a subsidy in return of an engagement not to introduce his screws in the United States."[410]

Mass unemployment surged ahead as a new and destructive phenomenon. The nasty word "unemployment" was deemed worthy of admission to the *Oxford Dictionary* only in 1888. Loss of employment was either due to "personal instability or character abnormalities"; and mass

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407. Randolph Churchill was to quit the fair trade movement led by Chamberlain. *Cf.* Winston Churchill, *Lord Randolph Churchill*, Vol. II, p. 328, London 1906. The turn of the century brought no new successes to the tariff reformers. However, if the 1910 elections were a guide, tariff reform made more converts in those years than free trade. Under the impact of the Imperial Conference of 1908, liberal politicians had become sympathetic to the imperial aspects of Chamberlain's arguments, and, as Lloyd George remarked to the naval policy which promised at once to hurt Germany economically and to finance naval expansion without recourse to further direct taxation.*War Memoirs*, Vol. I, London, 1933, p. 24.

408. "Free Trade. What is it? Why, breaking down the barriers that separate nations; those barriers behind which nestle the feelings of pride, revenge, hatred, and jealously, which every now and then burst their bounds and deluge whole countries with blood." *Speeches on Public Policy*, London, 1870, Vol. I, p. 79.

409. *Chartism* (1839) E*nglish and Other Critical Essay*, Vol. II, London, 1940.

410. Sir Almeric Fitzroy, *Memoirs,* London, 1925, p. 501.

dismissals, which could not be so elegantly pigeonholed, were ascribed to the inscrutable hand of natural forces.

Complaints were now heard that American trusts and German cartels were abusing the hospitality of liberal England by "dumping" surplus goods which they could not sell at monopoly prices to domestic consumers. Hostility to "the American invasion of England" gained widespread currency. "Made in Germany," originally a note of derision was becoming fast a catchword of alarm.[411]

By the end of the century these imperial antagonisms were intensified. The famous article "*Germaniam esse delendam*," published by the *Saturday Review* in 1897, roused an enthusiastic response among British industrial, commercial and financial circles. "Is there a mine to exploit, a railway to build, a native to convert from bread-fruit to tinned meat, from temperature to trade gin, the German and the Englishman are struggling to be first. A million petty disputes build up the greatest cause of war the world has ever seen. If Germany were extinguished tomorrow, the day after tomorrow there is not an Englishman in the world who would not be richer. Nations have fought for years over a city or a right of succession; must they not fight for two hundred and fifty million pounds sterling of yearly commerce?"[412]

Seventeen years and 40,000,000 dead were needed to test the validity of this imperialist thesis.

In such a maelstrom of undeclared war Cobden's liberal bark turned into a whimper.

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411. *Cf.* J.H. Clapham, *op. cit.*, Vol. III, p. 38. To what extent these fears were attributable to ignorance or prejudice is examined in the author's first chapter. His sources were drawn from *British and Foreign Trade and Industry, Memoranda* (First Series), 1903 (Cmd. 1761); A.W. Flux, "The Flag and Trade," *Statistical Journal*, 1899; and by the same author, "The Commercial Supremacy of Great Britain," *Economic Journal*, 1899.

412. R.J.S. Hoffman, *Great Britain and the German Trade Rivalry*, 1875-1914, University of Pennsylvania Press, 1933, p. 281. A leading newspaper carried an editorial headed "Get back to trade": "We are out for German trade and we are determined to get it. This remark, made with great emphasis by a manufacturers' representative at the office of the Commercial Intelligence Branch of the Board of Trade today, indicates the determination that is felt throughout the country to get back the trade from Germany. Manufacturers and their agents are besieging the offices from morning till night. Nothing like it has ever been known in the history of the Board of Trade." *Pall Mall Gazette*, 21 August 1914. *Cf.* Hoffman, Appendix II, pp. 325-9.

"I see in the Free Trade principle," he proclaimed, "that which shall act on the moral world as the principle of gravitation in the universe—drawing men together, thrusting aside antagonism of race, and creed, and language, and uniting us in the bonds of eternal peace,"[413] a vision that was to be shared even by the *éminence grise* of liberal economic theory. "It is commerce which is rapidly rendering war obsolete," wrote John Stuart Mill, "by strengthening and multiplying the personal interests which are in natural opposition to it. And it may be said without exaggeration that the great extent and rapid increase of international trade, in being the principal guarantee of the peace of the world, is the greatest permanent security for uninterrupted progress of the ideas, the institutions, and the character of the human race."[414]

Not even Tennyson's poetic imagery remain untainted by laissez-fairyland:

> For I dipped into the future, far as human eye could see,
> Saw the Vision of the world, and all the wonder that would be;
> Saw the heavens fill with commerce, argosies of magic sails,
> Pilot of the purple twilight. dropping down with costly bales;
> Till the war-drum throbb'd no longer, and the battle flags were furl'd
> In the Parliament of man, the Federation of the world.
> There the common sense of most shall hold a fretful realm in awe.
> And the kindly earth shall slumber, lapped in universal law...
> Not in vain the distance beckons. Forward let us range.
> Let the great world spin for ever down the ringing grooves of change
> Through the shadow of the globe we sweep into the younger day:
> Better fifty years of Europe than a cycle of Cathay.[415]

But the mellifluous rhetoric of Cobden, Bright, Matthew Arnold, Mill, Tennyson and early Victorians nurtured in the sanctity of free trade, could not obscure the fact that the world of the *Pax Britannica*, even before

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413. *Speeches*, Vol. I, pp. 362-3.

414. Mill, *op. cit.*, p. 582.

415. *Locksley Hall.*

the torrential antagonisms were to sunder the folklore of classical political economy, bristled with colonial wars, territorial aggrandisement and universal imperialist predation.

Nowhere was this expressed with greater lucidity than by one of the most militant architects of modern British colonialism. In a report of the Colonial Office dated June 1897, Chamberlain wrote:

> If you will for a moment consider the history of this country during, say, the present century, or, I would say, during the present reign, you will find that every war, great or small, in which we have been engaged, has had at bottom a colonial interest, that is to say, either of a colony or else of a great dependency like India. This is absolutely true and is likely to be true to the end of the chapter.

1824	Ashanti War
1824-1826	First Burmese War
1837	Upper Canada rebellion
1838-1841	First Afghan War
1839	Annexation of Aden
1839-1842	First Opium War
1840	Bombardment of Acre
1843	Conquest of Sindh
1845-1846	First Sikh War
1850-1853	Kaffir War
1852	Second Burmese War
1854-1856	Crimean War
1857	Suppression of India's freedom struggle
1857-1860	Second Opium War
1874	Second Ashanti War
1878	Second Afghan War
1879	Zulu War
1879	Third Afghan War
1881	Boer War (Majuba Hill)
1882	Bombardment of Alexandria

But these brush wars were piddling appetisers to the main course that included the rape of Africa, the dissection of China, the murderous intrigue and undercurrent of unremitting rivalries in the Ottoman empire,

the machinations in the Balkans, the frantic orgy of the arms race—these were (to alter the metaphor) but some of the swiftly flowing streams that gave access to the confluence that was World War I.

Neo-Mercantilist Tendencies

Co-extensive with unstoppable economic concentration, the period 1875-1914 was increasingly marked by concerted capital export drives from the industrialised nations of western Europe.

To be sure, even in its period of gestation, capital export was no novel element in industrial capitalism. Sismondi, Malthus, Mill,[416] Fullerton and Wilson appreciated the crucial role it played within the business cycle.

And it was neither Marx nor the Marxists who first lucidly underscored its effects. Nowhere in the mass of Marx's writings do we find a decisive contribution (as in the case of monopolistic competition and their effects on the accumulation process) on the nature of capital export. It was only when its political implications had been spotlighted by the non-socialist and classical heretic John Hobson that we find Marxists theorists as Hilferding,[417] Luxemburg[418] and Lenin exploring the field.

Was it true, as the classicists argued, that *laissez-faire* models functioned automatically in response to changes in demand and supply acting through the objective price mechanism? Or that capital flows precisely into those areas where it was most needed? The classical model was constructed on the basis of three major, interdependent assumptions:

1. the dependency of the rate of capital formation on individual decisions to save and invest;

2. the determination of the yield on the marginal efficiency of capital, like any other price, by the index of scarcity; and

3. full employment. The basic argument in support of international capital export is that under normal conditions it leads to the movement of capital from countries where its marginal productivity is low to countries

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416. *Principles,* Ashley ed., p. 582.

417. *Das Finanzkapital: eine Studie uber die jungste Entwicklung des Kapitalismus,* Wien, 1909.

418. *Die Akkumulation des Kapitals: ein Beitrag zur okonomischen Erklarung des Imperialismus,* Leipzig. 1912.

where it is high, and thus tends to exercise an "equalising" effect throughout the world, inducing a rise in the world's capital resources, thereby acting as an accelerator in boosting world's real income.

The assumptions of general and partial equilibrium theory, at any rate, had the merits of clarity and elegance, but in the turbulent pre-1914 belle époque they had ceased to mirror the flood-tide of events.

Thomas Balogh has reminded us[419] that the foreign investment process was not, as orthodox theory would have it, a gradual equalisation of returns in a static system operating through price and income movements in the lending and borrowing countries. If the inter-war period lending experience was its ultimate grave-digger, the halcyon days of Edwardian prosperity and the political forces coupled with colonial and international investment expansionism already revealed its bankruptcy.

It should be kept in mind, notwithstanding Balogh's criticism, that classical theory was not woven from a single piece of cloth. The concept of over-saving recurs in many Victorian pamphlets and articles. Fullerton in his work *On the Regulation of Currencies*, published in 1844, stated:

> "Without entering into the abstract question so much debated among economists as to whether such a thing as an over-supply of capital be possible, I may venture to think... without much fear of contradiction, that, under the present constitution of society in this country, what with the annual savings from income and *the large fortunes in constant course of remittance from the colonies*, the amount of capital seeking productive investment accumulates in ordinary times with a rapidity greatly out of proportion to the increase of the means of advantageously employing it."[420]

Unfortunately, Fullerton did not follow up this line of reasoning in his later researches. Indeed, Hobson's, Robinson's and Keynes's theoretical models would not have been able to achieve a higher synthesis but for the promising work of J.S. Mill.

In a perspicacious section of his *Principles* entitled "On the Tendency of Profits to a Minimum," he argued that "the expansion of capital would

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419. *The Economics of Full Employment: Six Studies in Applied Economics*, Oxford Institute of Statistics, 1948, Chapter V, pp. 126-65.

420. Cited in J.M. Keynes, *General Theory*, p. 362.

soon reach its ultimate boundary, if the boundary itself did not continually open and leave more space."

His fundamental assumption was that "the rate of profit is habitually within, as it were, a hand's breadth of the minimum and the country therefore on the very verge of that stationary state" due to the acceleration of capital accumulation with no reserves of fertile land to fall back on. The latter prospect appeared so hypothetical, however, that he saw no immediate prospect for the emergence of a non-profit society. His second assumption was the cessation of capital export, leaving no more capital to be exported for the financing of railways or loans and no emigrants taking capital with them.

This would not lead to overproduction, he argued, but rather exercise a depressing effect on the internal profit rate; and he amplified this to demonstrate *that capital export was imperative, since it counteracted a fall in the profit rate.* Writing as early as the middle fifties, he made this striking statement concerning British international investment: *"I believe this to have been for many years one of the principal causes by which the decline of profits in England has been arrested,"* and "the perpetual overflow of capital into colonies or foreign countries to seek higher profits than can be obtained at home' serves this purpose. This capital exodus", he adds, "does what a fire, or an inundation, or a commercial crisis would have done: it carries off a part of the increase of capital from which the reduction of profits proceeds."[421]

Despite these shrewd insights into the nature of capital accumulation, the *raison d'être* of capital export and the relationship of the latter with the profit rate, Mill remained lashed to the classical chariot by his reluctance to abandon the assumption that "saving enriches and spending impoverishes the community."

It fell to John Hobson in 1889[422] to demolish this myth, and, in so doing, he sowed the seed that was to yield so rich a harvest to the author of the *General Theory* almost fifty year later, and to Lenin's *Imperialism* (1916).

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421. *Principles*, Ashley ed., p. 738.

422. *Cf.* J. Hobson and A.F. Mummery, *The Physiology of Industry*, London, 1889. Reprint 1955, Keynes described this work as an "epoch in economic theory." Cf. *Hobson and Underconsumption*, Amsterdam, 1956.

Hobson, in the tradition of Sismondi, Malthus and Rodbertus, was an underconsumptionist. In his pioneer work, written in collaboration with A.F. Mummery, the notion of "over-saving" is trenchantly assailed. Their seminal thesis was that over-saving was pernicious and that "any undue exercise of this habit must cause an accumulation of capital in excess of what is required for use, and this excess will exist in the form of general over-production."[423]

This thesis, Hobson tells us, was meant to combat the classical dogma now "reiterated and restated . . . from the daily papers to the latest economic treatise, from the pulpit to the House of Commons . . . till it appears positively impious to question it."[424]

How could there be any limit to the amount of useful savings when every item of it went to enlarge the capital structure and the wages fund? "Sound economists could not fail to view with horror an argument which sought to check the source of all industrial progress."[425]

Just as the transitional difficulties of post-Napoleonic capitalism blazed new theoretical vistas for Sismondi and Malthus, so the Great Depression of the eighties opened new ones for Hobson, as another far more portentous crisis was to do for Keynes.

Disproportionalities between savings and investments and declines in interest rates were considered with serious alarm by the contemporary financial press. In 1887, *The Statist* reported that owing to high annual savings a considerable portion of these go into stock exchange securities. If these securities remained constant there would be a continuous price upcreep. This is so, it continued, because money seeking profitable investment outlets grows yearly while investments remain the same. "Outside the U.S. there has not been so rapid a creation of securities as would absorb all the new capital, nor even a large proportion of the new capital."[426]

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423. *Ibid*, v.

424. *Confessions of an Economic Heretic*, London, 1938. Cf. also H.B. Davis, "Hobson and Human Welfare," *Science and Society*, Vol. XXI, No. 4, 1957.

425. *Ibid*, p. 31.

426. *The Statist*, Vol. II, 23 July 1887, p. 97.

In 1895 the same journal queried: "Is it that the savings of the world are becoming too great for the requirement of the world, and that capital will depreciate so much that practically the business of banking threatens to become unprofitable?"[427]

Examining the effects of the Great Depression at the end of the century, the Royal Commissioners remarked that they were "satisfied that in recent years the production of commodities generally, and the accumulation of capital in this country, have been proceeding at a more rapid than the increase of population." One of the Commissioners (Alfred Marshall) declared, "the amount of capital seeking investment has been increasing so fast that, in spite of a great widening of the field of investment, it has forced down the rate of discount."[428]

In his *Confessions*, Hobson explains why the material conditions in Britain were propitious for the diffusion of these ideas. The fallacy "of unlimited saving . . . remained undetected for the greater part of the century" largely because the industrial balance of power had not effectively turned against Britain. "So long as we were the only advanced industrial country with a large exportable surplus, there was no limit to our profitable saving." But when Imperial Germany, the United States, France and Japan began to encroach upon the traditional preserves of the British Empire and "challenge its industrial paramountcy for the export of manufactures and for the development of underdeveloped countries, the fallacy . . . became apparent."[429]

Foreign Investment Practice

To what extent did foreign investment practice and policy fit into Hobson's picture of over-saving and under-consumption? It was symptomatic of international investment experience, comments Cairncross, that in the four or five decades preceding 1914, Europe as the world's banker invested abroad almost as much as the entire national wealth of Great

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427. *The Statist*, 22 June 1895.

428. *Official Papers*, p. 51.

429. *Op. cit.*, p. 30.

Britain. Britain alone invested overseas as much as her entire industrial and commercial capital at home and one-tenth of her national income originated as interest on these investments.

Translated in terms of 1951 prices, and applied to the United States, it implies a volume of American overseas investments of no less than $600,000,000,000 and an annual yield on them of about $30,000,000,000. If the same proportion of American resources were slated for foreign investment as Britain devoted in 1913, the investment flow would have had to be thirty times as great and the entire Marshall Plan carried out twice a year.

"The very extravagance of such an hypothesis shows how little there is in common between the perspective of the Victorian era and those of today."[430] The very "extravagance of the hypothesis" also reveals how utopian it is to attempt to force the complex post-1945 world into the procrustean precepts of the pre-1914 world.

But what concerns us here, however, is not so much the implications of the hypothesis as the boomerang effects of such investments on the colonial occupied areas and the fierce antagonisms germinated among the lending countries. China is an instructive case-study of the various symptoms, stresses and strains which lending imposed on an oppressed quasi-feudal economy.

China's Dossier

The period from the Treaty of Nanking in 1842 to the liberation of China in 1949 straddles a little over a century: a century that saw the rise and collapse of economic liberalism in China.

Why did capital exports from the colonial powers not contribute to the economic reconstruction of China? Why did this assault of direct investment not transform her into an industrialised country, but rather served to arouse the ire and suspicion of Chinese nationalists, democrats and revolutionaries from 1898 onwards? Were these suspicious and emotions groundless? Seen in the context of a resurgent Asian world they were not; and these foreign penetrations serve largely to explain Asian, and not

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430. A.K. Cairncross, *Home and Foreign Investment 1870-1913: Studies in Capital Accumulation*, Cambridge University Press, 1953, p. 3.

merely Chinese, hostility to the "liberal" model, and their ideological and economic propensities in the second half of the present century.

Alien political repression and direct investments always coddled each other in the decades preceding August 1914 in the world's colonial and quasi-colonial regions.

"The battle for concessions," to use Lord Salisbury's *fin de siècle* description of events, was now being fought on Chinese soil under such slogans as "spheres of interest," "spheres of influence,"[431] and "open door." China had now become, as Claude Buss remarked, "an El Dorado for construction engineers, because railroads promised huge and continuing fortunes. Concession seekers and bargain hunters with well-filled pocketbooks flocked into Peking . . . , they did their best to find out what their rivals were doing and to conceal their own achievements and prospects even from their own secretaries. Personal interests were all too easily identified with national interests, and the quest for profit precipitated the gunboat and ultimatum methods of diplomacy."[432]

International money lending turned out to be a gargantuan bonanza for the lending country. If a British banking house squeezed a fat railway contract in its sphere of influence, this implied that its banking representatives had negotiated with Chinese officials, or that its parent company in London had bargained directly with the Chinese finance minister.

After contractual arrangements had been settled, the British company would deposit an equivalent sum in its own or some other bank and would give the Chinese government a cheque of the same amount minus commissions and bank charges. According to the contract China would place orders with British plants to the value of the loan, and it was understood, though not explicitly stated, that a British company would be the shipper and that a British insurance company would underwrite the risks.

It was also understood (as in the case of railways) that the undertaking would be sufficiently profitable to pay back interest and amortisation charges on the original loan. China paid its bills by cheques drawn against

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431. On definitions of spheres of influence, cf. Chapter II, Paul S. Reinsch, *World Politics at the End of the Nineteenth Century, as Influenced by the Oriental Situation*, London, 1916.

432. C.A. Buss, *The Far East*, New York, 1955. p. 89.

its funds in London. Rich quick pickings were opened up to shoals of salesmen, manufacturers, transporters, brokers. If a British bank wheedled a contract from the Chinese Government this meant that every British capitalist involved in supplying equipment got his cut, and the same applied to other capitalist and investment bankers of other countries.

"This explains why the international rivalry was so keen and why the diplomats were usually at the beck and call of the concession hunters. It also explains why the Chinese felt themselves imposed upon and exploited by their ostensible friends."[433]

The very nature of international lending bred rivalries which prevented China from falling into the grab bag of a single power,[434] as in the case of Indochina, Indonesia or India. Nonetheless, they had drastic political reverberations.

The six-power loan is an illustration. On 5 April 1911, an agreement was drawn up by the United States, British, German, Japanese, Russian and French bankers for floating the Manchurian Currency and Development Loan. The agreement was signed by the Imperial Chinese Government, J.P. Morgan & Co., Kuhn Loeb & Co., the First National Bank and the National City Bank, the Hong Kong and Shanghai Banking Corporation, the Deutsch-Asiatische Bank and the Banque d'Indochine.

The agreement provided for the loan of £1,000,000 sterling to unify Chinese currency and extend industrial enterprises in the three

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433. C.A. Buss, *op. cit.*, p. 89.

434. It has been argued that the reason why Imperial China did not share the fate of India is partly to be explained by rivalries of the would-be occupiers. This was the motive force that inspired the "open door." In Willard Straight's opinion "it won the adherence of other nations not because of any particular consideration for China, but because of their mutual jealousy and their realisation that partition would impose upon them responsibilities which they might find difficult to bear. They did not therefore surrender the ports which they had forcibly leased, but their acceptance of the "open door" doctrine nevertheless marked the beginning of a financial and commercial, rather than territorial, definition of their respective interests." *China's Loan Negotiations*, New York, 1913, p. 124; also G. Clark, *Economic Rivalries in China*, Yale University Press, 1932, p. 21; Mingchien J. Bau, *The Open Door in Relation to China*, New York, 1923; "The Open Door: An Idea in Action, 1906-1913," *Pacific Historical Review*, Vol. 23, 1955. The "Open Door" policy was not a uniquely American creation, cf. the memorandum of the Manchester Chamber of Commerce to the Foreign Office, 27 April 1898, in N.A. Pelcovits, *Old China Hands and the Foreign Office*, New York, 1948, p. 226.

Manchurian provinces.[435] The rate of interest was fixed at 5% repayable in forty years. As fixed collateral these bankers secured a mortgage on the taxes on tobacco (production and consumption) and salt. These taxes were declared, in the agreement, to be free from all other loans, liens or mortgages.

The bankers were to have first claim on them in case of default and the Imperial Government could not abolish or decrease them without the banker's permission. This agreement was known as the Chinese Currency Loan and marked a new stage in the economic overlordship of China. The American Consul-General, Willard Straight, who had earlier negotiated another Manchurian Bank Agreement, was J.P. Morgan's financial representative and also a *protégé* of Harriman, the railway king. "The significance of the loan agreement signed on Saturday," he wrote to Morgan, "will be better realised five years hence than it is today. It is the first tangible result of the new policy inaugurated by Secretary Knox."[436]

The Boxer uprising eleven years earlier, was, the spontaneous rebellion of an oppressed people against the scramble of European and American capitalists and foreign investment banks for privileged pickings.[437] The revolution of 1911 that toppled the Manchu dynasty, heralding the first Republic was a revolt against a putrefaction that precipitated Imperial China down the gadarene slope of colonial enslavement.

Symbolic of the national awakening and of the intensity of the "anti-foreign" hatred was the proclamation by the freedom fighter Yu Tung-chen. "The foreigners, under the pretext of trading and teaching

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435. P.H. Clyde, *International Rivalries in Manchuria* 1689-1922, Ohio State University Press, p. 184.

436. H. Croly,*Willard Straight,* New York, 1925, p. 402.

437. The contemporary sources on this point are revealing. A. Krausse, *The Story of the Chinese Crisis*, London, 1901, p. 201. On the impact and scope of the Boxer Rising (the Yihotuan rebellion), see G.N. Steiger, *China and the Accident, the Origin and Development of the Boxer Rising*, Yale University, 1927, p. 107. The views of the German Minister to China 1875-1893 show the economic significance of the movement: M. von Brandt, *Zitfragen*, Berlin, 1900. The Russian diplomat Count de Witte, *Memoirs of a Diplomat*, New York, 1921, p. 107, attributes the rising to the exploitation of the country by the European powers, Chester C. Tan, *The Boxer Catastrophe*, Columbia University Press, 1955, is a comprehensive work with an extensive bibliography.

Christianity, are in reality taking away the land, food and clothing of the people, and besides overturning the teaching of the sages; . . . they have eaten our children and piled up the public debt as high as the hills; they have burnt our palaces and overthrown our tributary states, occupied Shanghai, devastated Formosa (Taiwan), forcibly opened Kiaochow and now wish to divide up China like a melon."[438]

Once the Republic had been set up and the squabbling Chinese factions finally composed their differences, the coalition government under the stooge Yuan Shi-kai informed the Four-Power Consortium that China proposed to borrow $125,000,000 for a general administrative reorganisation. The respective governments of the financial group decided that it was desirable that Russian and Japanese bankers be included in the consortium, but the US government later withdrew its moral support from the loan, the conditions of which, President Woodrow Wilson wrote, "seem to us to touch very nearly the administrative independence of China itself; and this administration does not feel that it ought, even by implication, to be a party to those conditions. The responsibility on its part which would be implied in requesting the bankers to undertake the loan might conceivably go to the length in some unhappy contingence of forcible interference in the financial, and even the political affairs of that great Oriental State . . . . The conditions include not only the pledging of particular taxes, some of them antiquated and burdensome, to secure the loan, but also administration of these taxes by foreign agents. The responsibility on the part of our government implied in the encouragement of a loan thus secured and administered is plain enough . . . ."[439] The rhetoric is hypocritical for Wilson was no friend of China's people. Nor should it be obscured that Wilson was the political executor of the financial rape of Latin America.

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438. L. Lawton, *Empires of the Far East: A Study of Japan ad of Her Colonial Possessions, of China and Manchuria and of the Political Questions of Eastern Asia and the Pacific*, London, 1912, Vol. I, p. 2.

439. Both Wilson's statement and that of the Bankers are given in the *American Journal of International Law*, Vol. III, No. 2 (April 1913), pp. 335-41. S. Nearing and J. Freeman argued that the Wilson administration represented the industrial rather than the financial

(Continued next page)

Intimate links of the leading investment houses with the State Department,[440] the British[441] and the German[442] Foreign Offices and the Quai d'Orsay were common knowledge.

When China suffered its eventual fate, the partitioning of the "melon" affected the entire pattern of its economic growth. Railway construction threw a floodlight on what happened.

Many of the major lines originated with foreign demands for railway rights that reached a climax in the "battle for concessions" in 1898. From their locational pattern they were mainly designed as trade boosters between commercially well-developed points. Two important railways did not fit into this pattern — the Chinese Eastern Railway in Manchuria, and the Yunnan-Indo-China Railway in the South-west — which differed from other foreign financed lines in China in that the railway companies, with the direct support of their governments, exercised all railway rights, including ownership for a maximum period of eighty years. In the South-west, the strategic French objective of the Yunnan-Indo-China railway was not so much to develop Yunnan as to gain control of the potentially wealthy province of Szechuan, and access to the Yangtse Valley through an extension northward.[443]

(*Continued from page 207*) interests of the United States. Faulkner stated that "the influence of Wall Street bankers was not great in Washington during the Wilson administration." *The Decline of Laissez-faire*, 1897-1917, Vol. VII, *The Economic History of the United States*, New York, 1951, p. 91. To the contrary, Wall Street's speculators were among Wilson's intimate côterie.

440. *Cf.* Straight, whose writings are indispensable for understanding the role of American foreign investments in this period. Also the biography of another diplomat-businessman, P.A. Varg: *Open Door Diplomat: The Life of W.W. Rockhill*, University of Illinois Press, 1952.

441. J.O.P. Bland, *Recent Events and Present Policies in China*, London, 1912. An excellent work by a *Times* correspondent in that country and an active leader in the "British-China Association," Also J.F. Withers, *International Finance*, London, 1916.

442. J. Riesser, *Die deutschen Grossbanken*, Jena, 1900.

443. L. Kent, *Railway Enterprise in China*, London, 1907, pp. 46-50; also E. Tu Zen Sun, *Chinese Railways and British Interests*, 1898-1911, New York, 1954; Cheng Lin, *The Chinese Railways: An Historical Survey, Shanghai*, 1935; Chiang Kian-gau, *China's Struggle for Railroad Development*, New York, 1943.

Another primary symptom of railway loan investment was total absence of administrative integration in the railway network. Each loan agreement set up an administrative system for the specific railway project for the duration of the loan, frequently distinct from the systems of other loan-financed railways. Relative powers of Chinese and foreign personnel, the function of foreigners employed by the railway administration and the ultimate seat of authority were all differently defined.[444]

A British group writing a concession for the Pei-Ning Railway from Peking to Mukden: a Belgian syndicate for the Kin-Han railway from Peking to Hankow: an Anglo-German combine for the Tsin-Pu railway from Tientsin to Pukow on the north shore of the Yangtse river opposite Nanking: a French syndicate for the Cheng-T'ai railway from Shihchiachwang to T'aiyuan; an American Concessionaire for the Han-Yueh railway from Hankow to Canton, and a Franco-Belgian group for the Lung-Hai railway to follow the Yellow River valley from Loyang to Haichow on the shores of the Yellow Sea. Some of these projects were never built or badly built, others were purely wild cat ventures. Invariably, the railway contracts provided for foreign auditors, managers, directors and engineers. China was practically ousted from its own transport network with foreign loans constituting about 80% of total investment in Chinese railways.

"The foreigners were eager to build railroads" claimed Overlach, "not because they thought the Chinese needed them but because the foreigners needed the profits from them. This, then, is a point of supreme significance: that the basic idea of all the treaty stipulations and agreements as to intercourse, customs, extraterritoriality, spheres of interest, railway concessions and control was not the welfare of the people of China . . . ."[445]

International investments were made which ignored the vital economic interests of the Chinese nation; it was hardly inappropriate for A.

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444. This is illustrated by comparing the working agreement for the Shanghai-Nanking Railway and the provisions in the Canton-Kowloon and Tientsin-Pukou Railway loan agreement: J. MacMurray, *Treaties and Agreements with and concerning China*, 1894-1919, Oxford University Press, Vol. I, pp. 405-08, 690.

445. T.W. Overlach, *Foreign Financial Control in China*, New York, 1919, pp. 271-2.

H. Morse to entitle the third volume of his massive work on Chinese history, *The Period of Subjection* (1894-1911).[446]

Swirling hatreds against the servility of the Manchu dynasty had now reached new peaks with Chinese nationalists indicting "the white foreign devils" for disrupting the economic system and transforming China into a colony. The anti-occupation hate that reached its zenith in the immediate post-Versailles aftermath and was to shift China to the orbit of liberation was already discernible. It may be said that pre-1914 international investments and their effects were the progenitors of Chinese nationalism since "the concept of nationalism was as foreign to an educated Chinese of the last century as that of money was to an American Indian."[447]

This new consciousness was boldly articulated by nationalist Chen Tien-hua in a brochure published in 1903:

> Gentlemen, can you say the Manchu Government is still the government of China? It has long been turned over to foreign countries. Our rights in matters of finance, railways and the appointment of government officials have long since been surrendered to these foreigners . . . . Just look at what the court has been doing lately. Is there anything it has not done on instructions from foreigners? It is obvious enough that we oppose foreigners, but the Manchu court does not think so. Instead, it asserts that we oppose the court and tries to execute us as rebels . . . . Gentlemen, we must understand clearly that we cannot rely on the government for no matter what you say about your unwillingness to be slaves of foreigners, you are already slaves, even though you may not want to believe it . . . ."[448]

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446. A.H. Morse, *The International Relations of the Chinese Empire,* 3 vols., London, 1910-1918. This is a confused synthesis but contains a mass of significant detail based on contemporary Chinese and Western sources.

447. E. Herbert Norman, *Japan's Emergence as a Modern State,* Harvard University Press, 1940, p. 125.

448. *History of the 1911 Revolution in Wuchang,* quoted in *Imperialism and Chinese Politics,* Beijing, 1954.

Little did the foreign investment bankers realise, when the revolution exploded in October 1911 with the collapse of the Manchu dynasty, that "what had fallen so ignominiously was not merely a monarchical system, rotten to the core, but the elaborate structure they had erected by force, fraud and cajolery over a period of seventy years."[449] The word "erected" is incorrect: imperialism merely used the Manchu dynasty as a scaffolding to promote their own economic and financial designs.

The spirit of nationalism of this "*decadent and exhausted race*" (Lord Curzon's description of the Chinese people at the turn of the century) was stirred to its depths by the successful Japanese campaign against Russia in 1905. Drawing from the painful experience of the Boxer uprising in 1900, comments the Sino-American scholar Bau, "when blinded fury led them to the fanatical attempt to expel all foreigners, this time they wisely turned their resentment on to the true source of their weakness, the Manchu dynasty," and by so doing hoped to establish a national government of their own "which would shelter them henceforth from the onslaughts of the West."[450]

But the Republic, as Owen Lattimore noted, was not congenial to those capitalists who felt imperilled by sweeping political changes. At the time of the 1911 revolution the majority of American and European capitalists were of the opinion that a republican form of government was absolutely alien to the Chinese temperament. An emperor, combined with a paternalistic bureaucracy, was the only thing they could ever understand. "The war-lord Yuan Shi-kai was described as a strong man of the kind that China needed . . . whereas Sun Yat Sen was depicted either as an 'amiable but unpractical idealist, or as a mischievous visionary'."[451]

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449. K.M. Panikkar, *op. cit.*, p. 199.

450. M.J. Bau, *The Foreign Relations of China, a History ad a Survey*, London, 1922.

451. O. Lattimore, *Solution in Asia*, Boston, 1945, p. 8. On the attitude of the European residents to Dr. Sun Yat Sen, *cf.* H.O. Chapman, *The Chinese Revolution*, 1926, p. 42. Sun once believed that his "revolutionary cause" would receive the aid of "the democratic

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Shackled by unequal treaties,[452] with a fiscal system[453] effectively controlled by powerful foreign nationals with extra-territoriality[454] a humiliating reality, with almost all of their railroads and heavy industry, half of their light industries and most of their public utilities in non-Chinese hands, Imperial China could hardly have been called a "sovereign power."

Within this quasi-colonial context R.H. Tawney (writing in the 1930's) could state that it was "still the case that over one-quarter of China's railway mileage, over three-quarters of her iron ore, mines producing more than half her output of coal, more than half the capital invested in cotton mills, and a smaller but not negligible proportion of that invested in oil mills, flour mills, tobacco factories, motor factories and banks are in the hands of foreigners. Dr. Sun Yat Sen's description of China as an economic colony is, from an economic point of view, not inappropriate."[455]

(*Continued from page 211*) west." "Time after time," wrote Professor and Mrs Lattimore, "Sun Yat Sen was abandoned, or even driven out, by militarists who worked with him only long enough to get a few troops under their command, or when foreign interests, alarmed by the growth of his 'subversive Movement,' began to threaten or bribe his political followers." *The Making of Modern China*, p. 132.

452. Chang Chung Tao, *Les Traités inégaux de la Chine et l'attitude des Grandes Puissances*, Paris, 1929.

453. The country recovered its tariff autonomy in 1928, but was nevertheless fiscally handicapped by the foreign administration of maritime customs and the proliferation of services which it performed; in addition, the customs was always linked, as collateral, with foreign loans. It was the customs' job to collect the duties assessed by foreign governments, deposit them in foreign domestic banks, and administer the revenue received in conformity with treaty obligations. S.F. Wright, *China's Struggle for Tariff Autonomy*, Shanghai, 1938. Also K.S. Latourette, *A Short History of the Far East*, New York, 1946, p. 476.

454. W.R. Fishel, *The End of Extra-Territoriality in China*, California University Press, 1952. The author explains that the decay of the extraterritorial system was closely related to Japan's encroachment on China. When Japan occupied the treaty ports, extraterritoriality lost its meaning and by the end of 1941 was "little more than a legal term." It was not until 1942 that the UK and the USA, stemming from the pressure of the national liberation struggle, felt compelled to relinquish these rights.

Investment Patterns

Geographical Distribution. A system of semi-sovereign rights of an essentially colonial character[456] had been diffused on Chinese soil blanketing the most fertile, resource-rich and strategic parts of China. Germany first gouged out her sphere of interest by the seizure of Kiachow, followed by Russia and her sphere of influence in Manchuria and Liaotung by the occupation of Port Arthur and Talienwan; France with her spheres in Yunnan, Kwangsi and Kwantung; Great Britain won recognition of her spheres in the Yangtse valley and Tibet; and Japan extended her influence, after grabbing Taiwan and Fukien province.

Remer classified foreign investments in China into three main groups: Shanghai, Manchuria and the rest of China. The following table illumines the preponderant role of Shanghai — a comprador's paradise — and the woeful neglect of the interior. Investment flowed largely into the treaty port areas. The importance of Shanghai was such that no less than a third of the total foreign investment in China was to be found there and 50% of the direct business investments.[457]

The investment breakdown among the leading countries was as follows. Russia and Japan, net debtors before 1914, figured prominently. Another feature of this post-Versailles investment pattern was the prominence of Japanese and American investments.

The "international settlement" of Shanghai developed into a sovereign city state, independent of China, where the Chinese police were barred

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455. R.H. Tawney, *Land and Labour in China*, New York, 1932, p. 129. Also Kate Mitchell, *Industrialisation of the Western Pacific*, New York, 1942, p. 102. China's failure to industrialise is attributed to internal forces of the bureaucracy by A. Feuerwerker, *China's Early Industrialisation*, Oxford University Press, 1958. Also the work of Ping-chai Kuo, *China: New Age and New Outlook*, London 1960 for the social, political and economic deterrents to comprehensive development.

456. M.J. Bau, *op. cit.*, pp. 337-8

457. C.F. Remer, *Foreign Investments in China*, New York, 1933, p. 71.

where Chinese courts had no jurisdiction over its own subjects, where Chinese laws did not apply and, far worse, "where the Chinese were treated as members of an inferior race with no rights and a prominently displaced notice that 'Chinese and dogs are not allowed inside the park'."[458]

TABLE 15. *Geographical Distribution of Foreign Investments in China, 1902-1931*

	1902		1914		1931	
	MILLIONS OF US$	% OF TOTAL	MILLIONS OF US$	% OF TOTAL	MILLIONS OF US$	% OF TOTAL
Shanghai	110.0	14.0	291.0	18.1	1112.2	34.3
Manchuria	216.0	27.4	361.6	22.4	880.0	27.1
Rest of China	177.2	22.5	433.1	26.9	607.8	18.8
Undistributed	284.7	36.1	524.6	32.6	642.5	19.8
TOTAL	787.9	100.0	1610.3	100.0	3242.5	100.0

TABLE 16. *Foreign Investments in China by Principal Countries, 1902-1931 (1914 = 100)*

	1902	1914	1931
Great Britain	42.8	100	195.8
Japan	0.5	100	507.7
Russia (USSR)	91.5	100	101.4
United States	40.0	100	399.0
France	53.2	100	112.3
Germany	62.3	100	33.0

Source: Remer, *Op. cit.*, p. 73.

458. Panikkar, *op. cit.*, p. 174. Also Edgar Snow, *Journey to the Beginning*, London, 1959. pp. 15-21. He writes: Western businessmen who lived in Shanghai when I arrived in 1928 acted as if the Settlement were real and would last forever. In their euphoria they felt that they were the continent and the four hundred million Chinese beyond were a kind of suburb put there by God for trading purposes."

Under conditions prevailing in China, direct business investment was done through the foreign "colony." The capital had been brought to China by the foreigner and it remained his legal property. The upshot of extraterritoriality was that the property and person of the foreigner were outside the jurisdiction of the Chinese courts. In "settlement" or "leased area," the territory was under the political control, wholly or in part, of one or more foreign governments; coastal port areas remained the parasitical sanctuary of the foreign compradore.[459]

Shanghai stands out as the model of the distorted growth of a treaty port under compradore capital. It was tops in foreign trade, tops in domestic trade, tops in foreign population (if we exclude the Manchurian cities of Dairen and Harbin) and in foreign investment, even as compared with the whole of Manchuria. The future of "the economic development of China under private enterprise is bound up with Shanghai and its influence upon the rest of China."[460] With liberation Shanghai became merely another city, with the centre of gravity shifting from the coastal belt as industrialisation of the vast hinterland speeded up.

Shortly before the Taft administration took office in 1909, an agreement was reached between British, French and German bankers for the construction of the Hankow-Szechwan line. Secretary of State Knox[461]

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459. The salient feature of the important export trade was the existence of a relatively small number of corporate giants, which controlled most of the capital invested. These investments included the great stocks of goods located at Tientsin, Dairen, Shanghai and Canton. These firms included such corporations as Jardine and Matheson, Butterfield and Swire, the Standard Oil Company, the Asiatic Petroleum Company and the British-American Tobacco Company. On the monopolistic price policies applied in China by the Standard Oil Company, cf. P'ei-kang Chang, *Agriculture and Industrialization*, Harvard University Press, p. 61. On the exploitative role of these Corporations in China considerable research work is yet to be done.

460. Remer, *op. cit.*, III. The same fallacy is repeated in the work by R. Murphey, *Shanghai, Key to Modern China*, Harvard University Press, 1953.

461. Philander C. Know, Champion of the Hukuang loans, was, according to Williams, by far the most dynamic of all American diplomats "in the attempts to use investments in other countries for the extension of political influence, and thanks to his efforts he fixed the outlines of American policy"—a policy "which was strengthened in the hands of later Secretaries of State as the United States was transformed into a creditor nation." *Economic Foreign Policy of the United States*, New York, 1929, p. 53.

intervened immediately (on the pretext of a Chinese promise made in 1904) demanding that the United States be given its share of the gravy in the form of capital supply and industrial equipment.

The Imperial Government replied that negotiations were closed, but that there would be other opportunities for future American loans. This was considered unsatisfactory, and Taft intervened. In a personal telegram to the Prince Regent, in language reminiscent of Lord Salisbury's a decade earlier, he wrote: "I am disturbed at the reports that there is certain prejudiced opposition to your government's arranging for equal participation by American capital in the present railway loan . . . . I have an intense personal interest in making the use of American capital (in the development of China) an instrument for the promotion of the welfare of China, without entanglements or creating embarrassments affecting the growth of her independent political power and the preservation of her territorial integrity."[462]

Despite the oblique and esoteric language of diplomacy the mask was off; direct investments, and American capital was certainly no exception, did enter into political "entanglements" and created "embarrassments" which affected China's "independent political power" violating her "territorial integrity." Leverages of diplomatic blackmail, intimidation, economic pressure and political violence fathered the intensified drives of the foreign investors in modern China.[463]

Foreign enterprise and capital export neither helped to revolutionise traditional social relations nor bring about what Remer calls "fundamental economic changes" in a society that had become fossilised by centuries of feudal rule. The counter-argument that Japanese direct investments industrialised Manchuria cannot be invoked, since it was not an integral part of China but rather a colonial appendage of the Japanese economy in the sense that "Manchurian minerals and metallic products were exported for manufacture or for finishing in Japanese factories."[464] As viewed

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462. *Ibid*, p. 46.

463. C. Vevier, *The United States and China*, 1906-1913: *A Study of Finance and Diplomacy*, Rutgers University Press, 1955. Emphasis is on the Taft Administration, Diplomacy as practised by Taft is described as "shopkeeper's diplomacy." A more appropriate term would have been "investment bankers' diplomacy." Also the earlier work of A.W. Griswold, *The Far Eastern Policy of the United States*, New York, 1938, particularly Chapter IV.

by Japanese tycoons and empire builders, Manchuria was not intended to become a well-planned industrial complex in the sense of forming a nucleus radiating industrialisation to various parts of the country. What transpired in Manchuria was symtomatic of Japan's rape of China over decades.

The more foreign capital poured into China, the more it was looked upon with contempt as the trojan horse of foreign subversion and exploitation.

Writing on the eve of the Japanese pounce on Manchuria in September 1931, Remer argued: "Since 1900 the Chinese people have been in the greatest danger of losing the very region in which direct investments have been greatest. To point out that the economic development of Manchuria has been carried forward does not meet the issue, for no foreigner may determine for the Chinese people what weight they shall give to what they regard as threats to the political integrity of their country."[465]

Foreign Borrowing. Unlike Japan, every financial loan involved the country in ever widening economic difficulties and political dependence. "Granting of loans to China became an object of fierce struggle among the powers who were aware that financial influence blazes the trail for political influence," wrote Riesser.[466] German diplomacy gloved German finance and industry. Underlining this, Bland reported that not only "does the German Foreign Office keep in touch with the movements of its financiers abroad. . . but it has come to pass, as part of a regularly organised system, that all the great financial sectors are directly associated with groups of manufacturers and industrialists, so that the whole force of politics, industries and finance moves forward, along predetermined lines, to a common goal."[467] Avoidance of a loan came to be regarded by the Chinese people, "if not by the Chinese government itself, as a diplomatic victory."[468]

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464. F.C. Jones, *Manchuria since 1931*, Royal Institute of International Affairs, 1949, p. 165.

465. Remer, *op. cit.*, p. 233.

466. Riesser, *op. cit.*, p. 403; also Sartorius von Walterhausen, *Kapitalsanlagen im Ausland.*

467. J.O.P. Bland, *op. cit.*, p. 287.

468. Remer, *op. cit.*, p. 123.

These early loans provide sizzling test cases of the inhibitors to effective and useful borrowing by the Chinese Government, who did not borrow except under duress. Once these loans were secured they bred violent conflicts between creditor powers, and in the end brought China no new productive capital. Foreign power status eventually came to be measured by the obligation to a particular country.

The four-power consortium of 1912, exposed the nexus of politics and international investment. Admission of Japan and Russia into the consortium required months of backstage bickering and intrigues. The Americans argued for an agreement in the consortium on currency reform and industrial development that was of special relevance to Manchuria. Russia and Japan protested. Meanwhile, negotiations to bring these two powers into the group were undertaken with the knowledge and consent of the Chinese Government, and signalised the inclusion of countries which were traditional debtors. When the loan was issued the whole of the Japanese share and the bulk of the Russian share were actually issued in the financial centres of Western Europe. *The Economist* bitterly commented on the "absurdity of Great Britain lending all the money, nearly all, and getting one-sixth of the control."[469] Political strategy and finance went hand in hand. Hartley Withers, writing a few years later, recognised that "the financial strength of England and France had to be shared, for political reasons with powers which had, on purely financial grounds, no claim whatever to participate in the business of furnishing capital to China."[470] Foreign capital was the major breeding ground of national indebtedness and disintergration.

The Failure of Foreign Capital. The failure of foreign capital to industrialise China cannot be uniquely ascribed to the nations's internal structure, but also to the implacable hatred generated by investment loans, capital export and their exploitative practices.

How is foreign capital in China to be so controlled and directed as to be of the greatest value in raising living standards, asked Lin and Remer?[471]

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469. *The Economist*, 21 September 1912.

470. Hartley Withers, *International Finance*, New York, 1916, pp. 108-09.

471. Remer, *op. cit.*, p. 236.

Time has written an obituary on this question. Already on the threshold of the thirties available indices pointed to the end of the concessionary and feudal-comprador profitariat.[472]

In the light of foreign investment predation in China, it was not fortuitous that Sun Yat Sen, product of a missionary school[473] and former admirer of Imperial Japan, turned his ideological coat when the October Revolution swept Tsarist Asia and Europe, hailing the Red Army as a "liberating force." In his *Manifesto to the Chinese People* dated 25 July 1919, he declared: "If the people of China wish to be free, like the Russian people, and be spared the lot prepared for them by the allies at Versailles . . . let it be understood that its only ally and brother in the struggle for national freedom are the Russian workers and peasants of the Red Army."[474]

And this conviction that the Red Army symbolised the forces of a resurgent humanity grew in the years ahead. In the last letter Sun Yat Sen

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472. With the rumblings of the world economic crisis still clearly audible, Sir Arthur Salter in the early thirties was debating the "possibility" of stimulating foreign investment in China. He argued that "if only the fundamental conditions required to encourage the flow of capital productive enterprises can be secured, there is an opportunity for economic development on a large scale—perhaps greater opportunity for the capital resources of the world being productively and beneficially employed than is to be found in any greater country." *China and the Depression*, Nanking, 1934, p. 13. As late as 1945, W.Y. Lin was pursuing the same trend of thought, *China and Foreign Capital*, Chungking, 1945. The question was woefully irrelevant in a crisis-ridden world. Why, when the "investment climate" was far more propitious in the pre-1914 world, was this not accomplished? The answer must principally lie in the imperialist antagonisms to which international investment gave rise.

473. L. Sharman, *Sun Yat Sen: His Life and Its Meaning*, New York, 1934. In an unintentionally amusing article, Bishop Willis, commenting on Sun Yat Sen's unorthodox political conduct, hastens to exculpate the Christian Church from having indoctrinated him with republican ideology. He was "a very good pupil" and left "behind him no traditions of hatching plots against the magisterial authority, . . . nor will anyone suppose that he was indoctrinated at Iolani (Hawaii) with the love of a republican form of government, much less with the desire of revolutionising the Celestial Kingdom," p. 13.

474. M.J. Bau, *China and World Peace*, New York, 1928, p. 192. Sun was progressive nationalist. *Cf.* Sharman, *op. cit.*, p. 148; Tsui Shu-chin, "The Influence of the Canton-Moscow Entente upon Sun-Yat-Sen's Political Philosophy," *Chinese Social and Political Science Review*, Vol. 18 (1934); A. Whiting, *Soviet Policies in China*, 1917-1924, Columbia University Press, 1954.

wrote to the Central Committee of the USSR he said: "You are at the head of the Union of Free Republics . . . I want to express the hope that the day will come when the USSR will welcome a friend and ally in a mighty, free China and that in the great struggle for the liberation of the oppressed peoples of the world both those allies will go forward to victory hand in hand."[475]

Noteworthy is that the gap between his position and that of the President of the Second Chinese Republic was a matter of degree, for both were nurtured in contempt of the foreign investor and their compradore shadows. "The forty years' experience of Sun Yat Sen," declared Mao Tse-tung, "have taught us that in order to win and consolidate the victory we must lean to one side. The experience of forty years [the first republic] and twenty years [Socialist experience] respectively shows that without exception, the Chinese people either lean to the side of imperialism or the side of socialism . . . a third road does not exist."[476]

But China was not the only nation that felt the buffetings of power politics on her development. Concerning the collusion between British political interventionists and foreign investors, Herbert Feis has said that "the habits and structure of British society contributed to foster a national harmony of action. In the small ruling circles, financial power was united with political power, and held mainly the same ideas."[477] Exploring another facet of this argument, Pigou writes: "There are openings for highly profitable investments in loans to weak governments whose officials can be bribed or cajoled, in building railways for such governments on favourable terms, in developing the natural resources of oil-fields . . . . When the government of some civilised country has annexed, or is protecting, or has established a sphere of influence over any undeveloped region, these valuable concessions are apt to flow, even when they are not formally reserved, to financiers among its own nationals. These financiers are often rich and powerful. They have means of making their voices

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475. Panikkar, *op. cit.*, p. 331.

476. C. Brandt, B. Schwartz, J.K. Fairbank, *A Documentary History of Chinese Communism*, Harvard University Press, 1952, pp. 453-64.

477. H. Feis, *Europe, the World's Banker*, 1870-1914, Yale University Press, 1930, p. 192.

heard through newspapers, of influencing opinion, and of putting pressure on governments."[478]

Important investment banking houses and industrialists sat in the House of Commons and the House of Lords, where they were in intimate contact with the various ministries. As highly organised industry and commerce "attained a steadily growing part in deciding Great Britain's political course, the demand increased that the Government use the power of the state to aid British industry to secure openings and contracts abroad, and in response to the demand the Government yielded."[479]

These observations are clinical, for they demonstrate how the "State" has been excluded from theoretical discussion in modern economic literature. Schumpeter deserves credit for riveting attention on the theoretical relationship between the business process and politics. It still remained true, he argued, that the large majority of economists, when discussing issues of public policy, automatically treat political authority as a "kind of deity" striving to "realise the will of the people and the common good."[480]

China constituted, as it were, a test bench for this hypothesis. After rejection of the "reorganisation loan" by the US Government, Rockhill,

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478. *Political Economy of War*, London, 1921, pp. 21-2.

479. Feis, *op. cit.*

480. "Policy is politics; and politics is a very realistic matter. There is no scientific sense whatever in creating for oneself some metaphysical entity to be called the 'Common Good' and a not less metaphysical 'State' that, sailing high in the clouds and exempt from and above human struggles and group interests, worships at the shrine of that common good. But economists of all times have done precisely this. . . It was, therefore, a major merit of Marx that he hauled down this State from the clouds into the sphere of realistic analysis." *Cf.* "The Communist Manifesto in Sociology and Economics," *Journal of Political Economy*, June 1949; also his *History of Economic Analysis*, New York, 1954, p. 33.

What Schumpeter has in mind is more concretely revealed in the statement made by President Woodrow Wilson. "Suppose you go to Washington and try to get at your Government. You will always find that while you are politely listened to, the men really consulted are the men who have the biggest stake—the big bankers, the big manufacturers, the big masters of commerce, the heads of railroad corporations and of steamship corporations . . . . The masters of the Government of the United States are the combined capitalists and manufacturers of the United States." *The New Freedom*, New York, 1913, pp. 57-8. *Cf.* the instructive work of C. Wright Mills, *The Power Elite*, Oxford U.P. 1956.

Wilson knew what he was talking about; he was one of the bootlickers of Big Capital.

who had been the United States Minister to China at the time of the Hukuang loan and Chanchow-Aigun negotiations, noted in 1914, the implications of rejection: "I only know of one blow equally heavy which has been dealt to our interests, our prestige and our influence in China: it was the cancellation in 1905 of the concession of the American-China Development Company . . . . It seems clear to me that so long as we shut our eyes to the undoubted fact that in the East, at any rate, from Stamboul to Tokio, politics, finance and trade to hand in hand, and that *neither the profits of trade can be fully reaped or our influence and prestige be adequately upheld without incurring the responsibilities incident to political and financial activity, we must be content to play a modest effaced role in the Far East, unworthy, in my opinion, of our great country and its vast interests in the Pacific.*"[481] Prophetic in its bourgeois sagacity.

The scope of international investments, however (reminiscent of Kipling's dictum that the ten commandments did not apply East of Suez), was not limited to the area from "Stamboul to Tokio." It was universal, as the investment banking experience in Mexico,[482] Haiti and the Banana Republics of Central America were to reveal.

In his biography published in 1935, Major-General Smedley Butler of the US Marine Corps portrayed the inter-relationship between the military and financial caste oligarchies.

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481. Overlach, *op. cit.*, p. 214. Also the study by Paul A. Varg. *Open Door Diplomat: The Life of W.W. Rockhill*, Illinois University Press, 1952.

There was nothing strikingly original in that last sentence as far as China was concerned. As early as 1900, Gundry (President of the China Association), on being told by the Foreign Office that his organisation should be primarily commercial and not political, angrily retorted: "It is impossible to divorce commerce from politics in China." Cf. Pelcovits, *op. cit.*, p. 274.

482. The three publications edited by Harry Elmer Barnes: J.F. Rippy, *The United States and Mexico*, New York, 1926; Leland Jenks, *Our Cuban Colony*, New York, 1928; Margaret Marsh, *The Bankers in Bolivia*, New York, 1928; R.F. Rippy, *The Capitalists in Columbia*, New York, 1928. P.C.M. Teichert, *Economic Policy and Industrialization in Latin America*, Mississipi University Press, 1959. The fact "that Anglo-Saxon policies are directed towards the maximisation of profits in monetary terms are not always the primary goal of the Latin Americans."

> "I spent thirty-three years and four months in active service as a member of our country's most agile military force—the US Marine Corps. I served in all commissioned ranks from a second lieutenant to major-general. And during that period I spent most of my time being a high-class muscle man for Big Business, for Wall Street and for the bankers. In short, I was a racketeer for capitalism.
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> "Thus I helped make Mexico and especially Tampico safe for American oil interests in 1914. I helped make Haiti and Cuba a decent place for the National City Bank boys to collect revenues in. I helped purify Nicaragua for the international banking house of Brown brothers in 1909-1912. I brought light to the Dominican Republic for American sugar interests in 1916. I helped make Honduras 'right' for American fruit companies in 1913. In China in 1927 I helped see to it that Standard oil went its way unmolested.
>
> "During those years I had, as the boys in the back room would say, a swell racket. I was rewarded with honours, medals, promotions. Looking back on it, I feel I might have given Al Capone a few points. The best he could do was to operate his racket in three city districts. We Marines operated on three continents."

An article of resounding importance, written by F. Huntingdon Wilson, Assistant Secretary of State, 1910-1913, underscored the nature of "dollar diplomacy." (The phrase was coined by Secretary of State Knox.) The political objectives of foreign investment were the strengthening of "American influence in spheres where it *ought* to predominate over other foreign influences . . . Such a sphere is Latin America, where our interest increases in intensity . . . and the maintenance of a traditional position favourable to our trade where trade may go by political favour, as in the Chinese empire . . . ."[483]

Similarly, the German Foreign Office prodded German banks "to enter into competition for Italian, Austro-Hungarian, Turkish, Roumanian, Serbian, Chinese, Japanese and South American loans. Even when the banks are approached from other quarters, the first move made is to ask

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483. "The Relation of Government of Foreign Investment," *Annals of the American Academy of Political and Social Sciences*, November 1916.

the consent of the Foreign Office for carrying on the negotiations. If the consent is given, then ministers, ambassadors and consuls frequently support the representatives of the German banks by word and deed."[484]

Competition ran on monopolistic lines and supply of investment capital "to open up" colonial areas was considered the preserve of the big banks, investment houses and their subsidiaries.

The reason for marshalling the state bureaucracy was clear. Powerful financial groups invoked their governments because they could not hope for equal favours without their collusion and because super profits were found in special forced concessions. But beyond these pecuniary aspects lay the strategic motive that these loans and capital investments would not be politically "stable" unless some measure of political coercion and control were exercised in the region where the investments were made. And above all the fear that if they were made without the consent of the government of the lending country the latter would find itself defenceless vis-á-vis its financial competitors.[485] In a highly publicised speech, Baron von Bülow underlined this point: "One has spoken of China's partition. However, such a partition has not come from us; we have only made sure in good time that whatever happens we do not come away with empty hands . . . . Last come last serve."[486]

The well-worn liberal text-book myth that capital flows where the demand is greatest is not corroborated by historical evidence. It was not conditioned by "rules of the game" (for these were rigged) or by rational financial and economic calculus, but by the cold logistics of national advantage and the super-profits appropriated from these colonial and semi-colonial enclaves.

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484. W. Müller, *Die auswartigen Kapitalsanlagen vor und nach dem Weltkrieg*, Berlin, 1918, pp. 152-3. *The German Bank Enquiry* (1908-1909) stated that "it is our own government that imposes the duty upon us under all circumstances to cultivate good relations with Brazil, East Asia, Chile or Argentina, inasmuch as these countries still constitute a neutral ground which, unless we look out, will be wrested from us without ceremony by the English and the Americans." Feis, *op. cit.*, p. 174.

485. G. von Schultze-Gaevernitz, *Britischer Imperialismus und englischer Freihandel zu Beginn des zwangzigsten Jahrhunderts*, Leipzig, 1900, p. 320.

486. *Reden*, Berlin, 1907, p. 30.

Franco-Russian Loan Debacle

The close tie-up between capital investment and political alliances were seen in the Franco-Russian Entente. French metallurgy was dependent on the Russian Government for armament and railway orders and was in close liaison with both governments.[487] The imbecility of this venture was only to be glimpsed a few years later.

By 1914, France had invested between 11.3 and 16.2 milliard francs in four and five per cent Russian state bonds.[488] It was known, although not to the French investor, that the Russian Government was spending more than 50% of its budget on armaments[489] and that it was on the brink of bankruptcy ever since the nineties.[490] These loans were repudiated and not a solitary sou of the 11 milliard ever recovered. According to White's estimate, France lent 23 milliard during the war, and this exclusive of war loans—a sum equal to two-thirds of her net foreign investments. Russia, Turkey, Greece, Austria-Hungary and the Balkans and some of the South American countries suspended or jettisoned their debts—losses, in all, totalling six times the sum of the German indemnity of 1870.[491]

Lysis's forecasts made in 1910 were not off the mark. "We have thrown in a prodigious capital, an immense fortune representing the sweat and accumulated privations of an entire French generation on the unwarranted assumption (and we have reached such a point now) that if the autocracy is

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487. Feis, *op. cit.*, pp. 51-2. Feis wrote that the loans to the Russian Government and the private investments made within that country had grown steadily from the time when the Alliance had been formed. The government and the banks had thrown their combined efforts behind their successive flotations, defended Russian credit and given Russian securities a place second only to that held by those of the French Government. "Since the alliance was the foundation on which French diplomatic effort was built, this demand had to be met—favour was given for favour".

488. *L'Escroquerie russe: Politique et Finance d'avant-guerre*, Paris, 1920, Lysis (Letailleur), p. 31.

489. Lysis, *ibid*, pp. 35-6.

490. L. Pasvolsky and H.G. Moulton, *Russian Debts and Russian Reconstruction*, New York, 1924, p. 39.

491. H.D. White, *The French International Accounts*, 1880-1913, Harvard University Press, 1933, p. 275.

swept away by an angry revolution, it would be difficult to have any illusions that our billions of francs will slip down the rate holes . . . ."[492] At the giddy heights of the *belle époque* such warnings were repugnant.

Loans to foreign governments reached the utmost limit of imprudence in France in the 20 years preceding the war, wrote Keynes. "No investments have ever been made so foolish and so disastrous as the loans of France to Russia, and on a lesser scale to the Balkans, Austria, Mexico, and Brazil between 1900 and 1914 . . . . To lend vast sums abroad for long periods of time without any possibility of legal redress if things go wrong is a crazy construction; especially in return for a trifling extra dividend."[493] The British investor could lay no claims to a superior intelligence rating.

Reviewing foreign investment practices and their sequel in his own country Keynes said: "No one who has examined typical lists of investments made by middle class investors in pre-war days would lightly maintain that in practice the investor had proved capable of looking after himself."[494]

H. N. Brailsford reported that one British firm alone boasted that between November 1909 and October 1911 it had placed Russian bonds worth £4,891,700 on the English market. Banquets, official visits and Royal courtesies were shrewdly used to boost the temperature of opinion "to the point at which money flows." And all this was occurring "while two Dumas were dissolved, the franchise gerrymandered, Finland enslaved and Persia overrun."[495] But the "Russian swindle," as Lysis described the Franco-Russian loan deal, was only to be seen in perspective

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492. *op. cit.*, p. 49, written on 25 February 1910.

493. *The Nation and the Athenaeum*, 9 August 1924.

494. *Manchester Guardian Commercial*, 7 August 1924.

495. H.N. Brailsford, *The War of Steel and Gold: A Study of the Armed Peace*, London, 1914, p. 229. *Cf.* the trenchant criticism of Lysis who claimed that it was with French money "that all these crimes have been committed," op. cit., p. 53. Jacob Viner, "International Finance and Balance of Power Diplomacy, 1880-1914," *Southwestern Political and Social Science Quarterly*, March 1929. Werner Sombart, *Die deutsche Volkswirtschaft im neunzehnten Jahrhundert*, 1922, p. 184. On a more general plane J.M. Robertson, *The Fallacy of Saving: A Study in Economics*, London, 1892, pp. 93-4..

after the war, and it was only one among a multitude of such monumental financial skullduggeries.

We have already seen the imperialist antagonisms which these investments generated between the investing powers and the ominous forces that it unleashed in many of them; far from diminishing after the 1914-1918 slaughter, antagonisms were to continue with unabated fury thereafter. The underlying contradictions leading to World War I and its consequences foreshadowed the intensified eruptions from Versailles to Munich.[496]

Geographical and sectoral distribution of international capital investment in the pre-1914 period did not usher in the basic structural changes associated with industrialisation in less developed areas. Greater the acceleration of the flow of foreign private capital greater was the animosity towards its source.

But if the impact of capital absorption on the underdeveloped debtor was more sharply focused, the effect of capital export on the industrial structure of the leading creditor nation of the period was equally stunning. What makes it crucial to give some weight to this point is that the lesson of the decades following Versailles was never properly learnt.

British Foreign Investment

Despite Schumpeter's contention to the contrary, there can hardly be any doubt that the revival of capital export and the opportunities opened up for investment outlets by imperialist expansion played a vital role in the 1896-1914 boom years.[497]

According to Cairncross's revised estimates of Hobson's figures for 1870-1914, net capital export (in millions of pounds) stood at 75.2 in 1888,

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496. Although these antagonisms were veiled in the immediate aftermath of World War II, they made their resurgence at the end of reconstruction in the fifties.

497. *Business Cycles*, Vol. I, New York, 1939, p. 397 ff. This is the period which he considers the upswing of a new Kondratiev long-wave movement, 1873-1896 having constituted the downward phase of the previous one. He associates this prosperity wave not with the new investment opportunities opened by colonial rape, but exclusively with technical innovations associated with the use of electricity.

compared with the previous peak figure of 76.4 in 1872. By 1890, it climbed to 85.6, plummeting to an all-time low in 1902 at 9.8. After that, it soared exponentially to 97.6 in 1906, 171.3 in 1911 and 198.2 in 1913.[498]

That the roots of prosperity were abroad was recognised at the time. A relatively small diversion of capital investment, asserted Clapham, would soon have wiped out the vestiges of unemployment, for "the sums invested abroad were immense." The 50% rise in exports between 1903-1907 were essentially an investment rise.[499] But even in the slack years 1908-1909, the curve rode above the crest figure of 1890.

Amid this euphoria and spate of exports few "stopped to ask how much of this might be in effect a giving away of money to governments which might repudiate and to enterprises not guaranteed to pay."[500]

Sir George Paish put the average yield on British public investments in other countries at 5.2% for 1907. The lowest was on Indian Government loans, which yielded 3.21%. Differential interest rate gaps between domestic, colonial and foreign investment was considerable. The following table shows the return promised by each of these groups of borrowers in the two five-year periods 1900-1904 and 1905-1909.

TABLE 16. *UK : Home and Foreign Investments*

	HOME	COLONIAL	FOREIGN	COLONIAL LESS HOME	FOREIGN LESS HOME
1900-1904	3.18	3.33	5.39	0.15	2.21
1905-1909	3.61	3.94	4.97	0.33	1.36

Source: R.A. Lehfedt, "The Rate of Interest on British and Foreign Investments," *Journal of the Royal Statistical Society*, LXXVI (1913), pp. 204-05.

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498. C.K. Hobson, *Export of Capital*, London, 1914.

499. J.H. Clapham, *op. cit.*, Vol. III, p. 53. He asserts that during the two years 1911-1912, "upward of 30% more capital was exported than during the whole decade between 1890 and 1901, and in each of the two years vastly more than in any peak year of capital export during the 80's and 70's," p. 61.

500. *Ibid.*

In all, British investors grabbed over £5,500 million in just over forty years in interest and dividends on their foreign investments.

Despite dazzling rises in British foreign investment British industry was stagnating. The iron and steel industry was in the doldrums. "The cardinal fact," wrote the editors of the *Iron Age*, "is that the British iron and steel industry shows ample evidence of stagnation compared with that of the United States and Germany."[501] The French *Revue Metallurgique* was no less critical.[502] "There was no fundamental improvement in the blast furnace and its accessories between 1886 and 1913," wrote Clapham,[503] a verdict buttressed by Burns as well as Burnham and Hoskins.[504]

The same lamentations of woe were voiced for the coal industry, which "had been worse than stagnant in efficiency since before 1900." And what was true of the basic heavy industries was truer still of textiles. The same lack of entrepreneurship which weighed down on the basic industries was to be seen in the chemical and engineering industries, and the trends were manifested in their growth rates.

Taking the Schlote growth rates for total home produced exports, the value is 4.7% from 1819-1825 to 1866-1874 and 2.3% from 1866-1874 to 1908-1913.[505] The corresponding figures for industrial production are 3.3%

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501. *The Iron Age*, 1900, D.L. Burn, *Economic History of Steelmaking*, London, 1936. p. 186.

502. The relative position of England with regard to technical education, wrote Burns, had probably changed little since Siemens analysed its effect in 1879. The position was summed up pithily in 1905—the technical training, which in Britain was given at night schools, was done in Germany and the US during the daytime: F. Popplewell, *Modern Conditions and Recent Developments in Iron and Steel Production in America*, 1900, p. 70; Burns, p. 214.

503. Clapham, *op. cit.*, p. 70.

504. G.O. Hoskins and T.H. Burnham, *Iron and Steel in Britain*, 1870-1930, p. 155.

505. Based on Walter Hoffmann's *Wachstum und Wachstumsformen der englischen Industriewirtschaft von* 1700 *bis zur Gegenwart*, Jena 1940. Also W. Schlote, *Entwicklung und Strukturwandlungen des englischen Aussenhandels von* 1700 *bis zur Gegenwart*, Jena, 1938. *Cf.* the criticism made of the Hoffmann index by W. Arthur Lewis in the statistical appendix to his article "World Production Prices and Trade 1870-1960," *Manchester School*, Vol. XX, 1952, No. 2; also P. Deane, "Professor Hoffmann on the Growth of British Industry," *Economic Journal*, September 1956.

and 1.7% respectively. The rates for some of the principal industries are as follows:

TABLE 17. *Percentage Average Annual Growth Rates*

	1827-1836 TO 1866-1874		1866-1874 TO 1908-1913	
	PRODUCTION	EXPORTS	PRODUCTION	EXPORTS
Coal	4.0	8.3	2.2	4.4
Iron and Steel	5.4	4.8	2.4	2.3
Machinery	5.1	8.1	2.8	5.1
Cotton	3.9	4.3	1.5	1.7
Wool	2.1	4.4	1.6	-0.2

Source: P.J. Coppack, "Climacteric of the 1890's: A Critical Note," *The Manchester School of Economic and Social Studies*, January 1956.

It was self-evident that this relative stagnation could not be explained by a savings deficiency, since 40% were being reinvested overseas, but rather to the fact that they were not mobilised for reconstruction and replacement of obsolete industrial plant.

Another equally interesting phenomenon, as pointed out by Beveridge, was that Great Britain was confronted with a relatively declining foreign market; in addition, the home market was shrinking, due to demographic changes. The birth rate in England reached its peak in 1876, and the death rate continued to fall as a result of improved public health measures; however, the decennial rate of increase tended to decline after the decade ending in 1881. These demographic shifts were occurring at a time when purchasing power on the domestic market was falling with the rise in the proportion of the unemployed to the total employable population after 1890.[506]

In his father's biography, Winston Churchill wrote almost a decade before the darkness of the post-Versailles purgatory engulfed the world of

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506. *Causes and Cures of Unemployment*, London, 1931, p. 16, Appendix I, column 7. According to D. Glass, in the years prior to 1914, the birth rate was less than 24 per 1,000 compared with 34 per 1,000 in the early fifties. The estimated net reproduction rate (per woman) in 1910-1912 was only 1,129 against 1,525 in 1880-1882. *Population Policies and Movements in Europe*, Oxford University Press, p. 13.

Edwardian pomp and make-believe: ". . . great victories had been won. All sorts of lumbering tyrannies had been toppled over. Authority was everywhere broken. Slaves were free. Conscience was free. Trade was free. But hunger and squalor and cold were also free; and the people demanded something more than liberty."[507] The crumbs of Empire could not silence the hunger growl of British workers in their stinking streets and dingy hovels.

TABLE 18. *Great Britain: Net Capital Exports and Net Income from Overseas Investments* (Annual average in millions of US dollars)

PERIOD	NET INCOME FROM OVERSEAS INVESTMENTS (1)	NET CAPITAL EXPORTS (2)	(2) AS PERCENTAGE OF (1)
1890-1899	452	360	77
1900-1910	593	437	74
1911-1913	879	1,042	119
1922-1928	1,075	407	38
1931-1935	751	-74	..
1936-1938	1,012	-212	..

Source: *International Capital Movements during the Inter-War Period*, United Nations, New York, 1949, p. 15.

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507. *Lord Randolph Churchill*, London, 1906, Vol. I, p. 269. Expressing the fears of the British profitariat in 1910, Lloyd George wrote: "There were ominous clouds gathering over the continent of Europe and perceptibly thickening and darkening . . . . In the year 1910 we were beset by an accumulation of grave issues—rapidly becoming graver . . . . It was becoming evident to discerning eyes that the Party and Parliamentary system were unequal to coping with them . . . . The shadow of unemployment was rising ominously above the horizon. Our international rivals were forging ahead at a great rate and jeopardising our hold on the markets of the world. There was an arrest in that expansion of our foreign trade which had contributed to the phenomenal prosperity of the previous half-century . . . . Our working population, crushed into dingy and mean streets, with no assurance that they would not be deprived of their daily bread by ill-health or trade fluctuations, were becoming sullen with discontent." *War Memoirs*, London, 1933-1937, Vol. p. 33. For references to the militancy of the class struggle, *cf.* S.J. Hurwitz, *State Intervention in Great Britain: A Study of Economic Control and Social Response*, 1914-1919, Columbia U.P, 1949, pp. 29-38.

From 1896 to 1900, British real wages, measured by Bowley's index, fell from 104 to 100 in 1913. This was the period, *par excellence*, of the robust expansion of British overseas investments.[508]

The cumulative uphot of this investment on domestic welfare, wrote Clapham, was that "resources were turned outward rather than to the rebuilding of the rotting towns of Britain simply because foreign investment seemed more remunerative."[509] Precisely. Then is now.

The reason why capital investment migrated from home to colonial and overseas territories was that it was a counterforce to a decline in the marginal efficiency of capital in the domestic market. In foreign markets, and more specifically in privileged spheres of investment in colonial or semi-colonial markets, the rate of profit is higher. Capital transfers from the metropolitan economy thus relieved the capital market pressure, and boosted profitability of capital in the domestic economy. They are able to exercise this dual effect because the hypertrophy of capital seeking investment in the domestic economy is reduced, pressure on the labour market lowered and the local entrepreneur is thus able to buy labour power at home at a lower price. Capital export, in this context, becomes a device of reorganising the labour force at home by tapping new bonanzas of exploitation abroad. Capital export is a manifestation of the class struggle.

Condliffe's belief that there were compensatory factors in the form of cheaper food imports which were reflected in working class budgets[510] is erroneous. Describing the effects of British capital exports on British working class welfare, Cairncross reported that a latent "divergence of interest between workers and capitalists was coming more and more to the front. Though capitalists had not been alone in gaining from the export of capital, the working class participated more by accident than by design. It was only by a rare coincidence of interests that the most profitable risks

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508. A.L. Bowley, *Wages and Income in the United Kingdom since 1860*, Cambridge University Press, 1937, p. 94.

509. Clapham, *op. cit.*, Vol. III, p. 53.

510. J.B. Condliffe, *The Commerce of Nations*, Chapter XI, New York, 1950..

happened to fructify in cheaper and cheaper foodstuffs and raw materials." There was no compensatory value in the building of palaces for sultans, the mining of diamonds, the purchase of warships or the construction of strategic railways. More investment at home, continued Cairncross, would have meant better houses, better travelling facilities and better public amenities, and had the rate of interest fallen, there would have been in addition a redistribution of income in favour of wage-earners. There is evidence that deceleration of the rate of accumulation with such disastrous repercussions on British industry would not have occurred.[511]

"Cheap capital for other countries and improving terms of trade and real wages were no longer synonymous. Foreign investment, it was apparent, might lower the standard of living instead of raising it."[512]

The Impact of War

After Versailles, the map of Europe, Asia, the Middle East and Africa was re-drawn. The Austro-Hungarian Empire was broken up and the Ottoman Empire hewn into a chain of independent and semi-dependent states and mandated territories. Germany was now a vanquished nation despoiled of its colonies, saddled with reparation payments, struck by pathological inflation; France was bled white and mourning its 1,500,000 dead; the United States was enriched by the war as a creditor; a Leninist Russia had arisen dedicated to the overthrow of the colonial and capitalist systems; Japan had emerged the supreme power in Asia, holding proprietary interests over Germany's former claims in China and preparing for the large-scale aggression that was to replace the collective spoliation of China by individual spoliation; while in other parts of Asia, social forces, no longer sporadic and isolated but ideologically pinioned to programmes of industrialisation and social change — forces that were to crystallise in the immediate post-Yalta decade — had made a dramatic appearance.

511. A.K. Cairncross, "Did Foreign Investment Pay?" *Review of Economic Studies*, Vol. III, No. 1 (October 1935).

512. *Ibid*.

The aftermath of Versailles led, not to another decade of "hope and glory," but to massive unemployment and the means test.[513]

In the metropolitan economies, the unquestioned faith in the benevolent omnipotence of the self-regulatory price mechanism was shaken.[514] In its practical implications, it had proved as fragile as a cobweb stretched over a cannon's mouth. Freedom of trade and of contract, as Keynes remarked, had no appeal to hungry men rustling for bread.

The four-year holocaust seemed to shrewder spirits, to be nothing more than a break in an irreversible trend. Reviewing this period in 1933, Lloyd George mourned: "If we had not had a Great War, if we had gone on as we were going, I am sure that sooner or later we would have been confronted with something approximately like the present chaos."[515]

An era of disillusionment had begun. But from its shambles was to arise a new high powered salesman of salvation. J.M. Keynes, amid the wreckage of economic liberalism, came forward to proclaim that capitalism had "become absolutely irreligious, without internal union, without much public spirit; often, though not always, mere congeries of possessors and pursuers." With equal perspicacity, the genius destined to revolutionise economic thought in the nineteen thirties could write that the pillars on which the basis of the peace was to be built rested on unstable psychological conditions, and that it was unnatural for a population "to whom a few enjoyed the comforts of life, to accumulate so hugely. The war had disclosed the possibility of consumption to all and the vanity of abstinence to many. Thus the bluff is discovered; the labouring classes

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513. By the end of December 1922, 14% of the labour force was unemployed. In Pigou's words "the monetary slump was over, but employment was still, according to pre-war standards, extremely bad." A. C. Pigou, *Aspects of British Economic History*, 1918-1925, London, 1947, p. 40.

514. An American observer wrote shortly after the end of the war: "It may be accepted without question . . . that in the popular mind government operation and control of industry in the past four years has not merely driven the last nail into the coffin containing the defunct laissez-faire theory of government; it has dumped that coffin without benefit of clergy into the grave already dug to dug to receive it." Charles W. Baker, *Government Control and Operation of Industry in Great Britain and the United States during the World War*, Oxford University Press, 1921, p. 5.

515. *The Manchester Guardian Weekly*, Vol. 28, No. 14, 7 April 1933, p. 278.

may be no longer willing to forego so largely, and the capitalist classes, no longer confident of the future, may seek to enjoy more fully their liberties of consumption so long as they last, and thus precipitate the hour of their confiscation."[516]

Nothing could be more symptomatic of the significance of the changed historical configuration than the conversion of Keynes, the former leading liberal theorist. The trail from Liberalism to Keynesianism which he himself had blazed is described in his article entitled "National Self-Sufficiency" which appeared in 1933.

"I was brought up like most Englishmen," he wrote, "to respect free trade not only as an economic doctrine which a rational and instructed person could not doubt, but almost as a part of the moral law. I regarded departures from it as being at the same time an imbecility and an outrage. I thought England's unshakable Free Trade convictions, maintained for nearly a hundred years, to be both the explanation before man and the justification before heaven of her economic supremacy. As late as 1923, I was writing that Free Trade was based on fundamental truths 'which, stated with their due qualifications, no one can dispute who is capable of understanding the meaning of words.' Looking again today at the statements of these fundamental truths which I then gave, I do not find myself disputing them. Yet the orientation of my mind is changed; and I share this change with many others."[517] Keynes, the erstwhile evangelist of the divine ordainment of free trade and British economic supremacy, in 1933 flaunted his heresies with the pride of a pioneer.

However, his disillusion was not shared by all. From available evidence, a fairly pedestrian opinion in the 1920's was that post-war pains were transient, ascribable to post-war dislocations which would vanish once "stabilisation" was achieved. The latter concept — invoked as a cure-all — destined to assume the same importance as "integration" in the post-1945 decade. Liberal theorists argued that certain structural

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516. *Essays in Persuasion*, London, 1931, p. 165.

517. *New Statesman and Nation*, 8 and 15 July 1933. Contrast this article with an earlier article: "Free Trade in England," *The New Republic*, XXXVII, 1923 p. 87: "The claims to cure unemployment involve the protectionist fallacy in the grossest and also the crudest of arguments."

transformations had occurred in the body economic, in part due to the war and in part to longer term changes associated with production and market conditions. Adaptation to these changes was being hindered, it was asserted, by "frictional elements," but could "once more be achieved . . . if only freedom of enterprise and of trade were restored."[518]

To Condliffe and other orthodox high priests, the crisis which capitalism was traversing was seen as the consequence of *external* forces "disturbing the peace of free enterprise". The patient, according to this diagnosis, was suffering not from any deep-seated organic complaint but from superficial abrasions; and what was prescribed was the untrammelled operation of market forces. Disordered price ratios became a convenient whipping boy on whom the orthodox could vent their frustration.

Harmony of public and private interests that was the keystone of nineteenth century economic liberalism disintegrated, for the realities of the nineteen twenties and thirties had already become too vast, too complex, too pervasive to remain imprisoned within the confines of its restrictive assumptions.

"Let us clear from the ground," wrote Keynes, "the metaphysical or general principles upon which, from time to time, *laissez-faire* had been founded. It is not true that individuals possess a prescriptive 'natural liberty' in their economic activities. There is no compact conferring perpetual rights on those who have or those who acquire. The world is not so governed from above that private and social interests always coincide. The world is not so managed here below that in practice they coincide. It is not a correct deduction from the Principles of Economics that self-interest is enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these.

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518. League of Nations, *World Economic Survey*, 1931-1932. The classical remedy was invoked by J.B. Condliffe (the author of the report) to cure the deepest economic crisis ever witnessed. He wrote: "The basic causes of the 1929 crisis lay far back in the disorganization produced by the war and the burdens of debt and taxation which it achieved. . . . The mechanism of adjustment has worked with increasing difficulty and friction in th post-war world." The state of affairs could be cured by "extending the range and volume of international trade" and "allowing the forces of competition in world markets to rearrange territorial specialization in order to liquidate the financial legacies of the war, as the similar legacies of 1793-1815 and 1870 were liquidated," pp. 27-30. Also Sir Arthur Salter, *World Trade and Its Future*, Pennsylvania University Press, 1936, pp. 30-5.

Experience does not show that individuals, when they make up a social unit, are always less clear-sighted than when they act separately."[519]

Collapse of the fetishes of the stabilisation period had driven home both in theory and practice the magic formula of "disordered price ratios" and other classical paraphernalia had proved unable to weather the storm born of the novel problems of mass unemployment and other grim penumbra of the dilapidated capitalist economy of the inter-war years. The stark fact of those hunger-ridden years, with the piling up of redundant inventories and empty order books, foreclosures and bankruptcies, derelict plants and bread lines, drove home the unpalatable truth that something far more toxic than "frictional disproportionalities" or "disordered price ratios" afflicted international capitalism.

But if, in general, the overall picture in the inter-war period could be described as one of immobilism, there were oases, nonetheless, of flourishing economic life. The American economy offered, for a relatively short compass, the image of this prosperity after the recession of the early 1920's: the calm before the raging storm that was to break in a few years' time.

A marked feature of the post-Versailles picture was the enthronement of the United States as the leading world creditor and the transfer of the international capital market from London to New York. Although its transition "from debtor to creditor status was not so abrupt as is sometimes supposed, the rapidity with which it acquired foreign investments is unparalleled in modern times."[520] The centre of gravity of imperialism had shifted.

This rapid change was largely due to the heavy purchases by the Entente powers of raw materials, semi-manufactured goods, foodstuffs and munitions. For the first time, American exports exceeded imports by $1,000,000,000 in 1915. The belligerent powers paid for the difference in

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519. *The End of Laissez-Faire*, London, 1926, p. 39.

520. US Department of Commerce, United States in the World Economy. Economic Series, No. 23, p. 91. This is the most authoritative work on the subject. Also: *International Capital Movements during the Inter-War* Period, United Nations, New York, October 1949. Royal Institute of International Affairs. *The Problem of International Investments*, Oxford University Press, 1937; Cleona Lewis, *America's Stake in International Investments*, Washington, The Brookings Institution, 1938.

part by the resale of over $3,000,000,000 worth of American securities, a process stimulated by the French and British Governments, so that by the end of the war a considerable share of American securities in Europe re-migrated to the United States.[521]

TABLE 19. *Net Increase in Book Value of United States Direct Investments Abroad* (millions of US dollars)

AREA	1920-1924	1925-1929
North America (Canada and Newfoundland)	266.2	576.9
Latin America	831.2	886.1
Europe	227.8	419.0
Africa	27.5	58.5
Asia	92.5	179.5
Oceania	64.0	44.8
TOTAL	1,509.2	2,164.8

Source: Cleona Lewis, *America's Stake in International Investments*, Washington, The Brookings Institution, 1938.

Of fabulous proportions were the loans made to belligerents and neutrals during the war years with total loans estimated (from 1 January 1915 to 5 April 1917) at $2,581,300,000.[522]

A limitless El Dorado now hovered within the grasp of the American capitalist, mainly in the form of direct investment through, or under the control of, large monopolistic corporations such as specially formed subsidiaries or those in which American capital predominated. As with two

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521. *The Journal of Commerce and Commercial Bulletin*, 2 January 1917, places the total loaned to the Allied nations from August 1914 to 1 April 1917 at $2,263,400,000, of which $2,145,000,000 were for war purposes. Of the total loans for war purposes, Great Britain obtained $1,150,000,000; France, $685,000,000; Russia $160,000,000; Italy, $25,000,000; Canada, $120,000,000, and China, $5,000,000. In addition, there were the loans to Germany, which amounted to approximately $45,000,000 and to neutral powers (to 1 January 1917) amounting to $365,500,000. The final total is $2,567,500,000. Source: C.C. Tansill, *America Goes to War*, Boston, 1938 (in Appendix A and B).

522. Cleona Lewis, *op. cit.*, p. 355.

scorpions in a bottle, the conflict between investment banking houses and large-scale manufacturing industry reached lethal proportions.

From a revealing document published in 1932 by the American Senate Investigation Committee,[523] it can be seen that bankers testifying before the committee took the orthodox view that foreign loans and investment by international private investment houses were compatible with the interests of the nation.

Opening its inquest the Chairman of the Committee, asked C. Lamont of J. P. Morgan and Company if he thought that "American commerce has benefited from these loans in any way."

American commerce, retorted Lamont, benefited immensely from these loans and although in certain instances "the matter of foreign loans has been overdone" this was justified given the debilitated position of Europe after the war. These loans were necessary for stabilisation purposes and contributed to American prosperity. They were necessary, he concluded, since they permitted the debtor countries to fulfil their obligations to the United States when due.[524]

Otto Kahn, of the investment house of Kuhn, Loeb and Company, went beyond Lamont's thesis that foreign loans and international investment contributed to America's prosperity. No one, he argued, should ever accuse the international financier of being animated by any other than patriotic motives in his investment decisions. "Whether a man is an international banker or engaged in any other business, as long as he resides and works in, and owes allegiance to America, his object is and must be . . . America's prosperity, not merely from the point of view of a patriotic citizen but from the point of view of his own pocket. The international banker's profit, even in the case of foreign bonds, is made in this country and not abroad."[525] The lyrics were immutable.

The memorandum submitted at the Senate hearings on the factors influencing international investment decisions made no mention of the

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523. *Hearings on the Sale of Foreign Bonds and Securities in the United States, before the Senate Committee on Finance, Pursuant to R. Res.* 19, 72d Cong., 1st Sess., Washington, 1931-1932.

524. *Senate Hearings*, Vol. I. p. 45.

525. *Senate Hearings*, Vol. II, p. 397.

consequences of foreign loans on domestic prosperity and on the indices of national economic growth. Indeed, the opening sentence stated explicitly: "Our primary consideration in any foreign loan, as it would be in any domestic loan, is to endeavour to appraise from the facts obtainable the intrinsic merit of the bonds to be issued and consequently estimate the assurance of their principal and interest and sinking funds, if any, being punctually paid when due."[526]

This is a perfect example of sound foreign investment practice as applied by all investment houses on the basis of the profit margins to be obtained; but the memorandum gave no clue as to how these loans are advanced in order to promote the interests of the American nation.

That thorny aspect of the problem was underscored in the dialogue between Mitchell, of the National City Bank, and Senator Couzens. The former alleged that "foreign investments very largely control the volume of export business of the United States. They should have, therefore, a sound basis of desirability to the most critical of patriotic Americans; and the fact that the banking interests of this country have floated foreign loans in America is something which should receive the approbation rather than the criticism of any body of men."[527]

But the Senator wanted a little more enlightenment:

SENATOR COUZENS: You say $6,000,000,000 has been invested in foreign countries, and I was wondering what proportion of that amount was used to produce goods that had heretofore been made in America.

MR. MITCHELL: That I cannot answer, sir.

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526. *Ibid*, Vol. II, p. 355.

527. This statement, whereby the international financiers identified their own interests with those of the nation, recalls the well-known dictum of Mr. Charles Wilson: "What is good for General Motors is good for the United States." For the context *cf. Business Week*, April 18, 1953; The Senate Appropriations Committee, May 19, 1953; *The New York Times*, November 10, 1954.

SENATOR COUZENS: Is it not a fact that American industries have gone to foreign countries, including Canada, Great Britain, Germany and France to manufacture, in order to avoid having to pay the current tariff there?

MR. MITCHELL: That is quite true, Sir.

SENATOR COUZENS: You do not know what percentage that is of the $6,000,000,000?

MR. MITCHELL: No Sir, that I cannot answer from these figures.[528]

Debate on this point was not confined to the Federal Government and the international investment bankers: the theory that foreign loans and private investments promoted economic welfare was aggressively impugned by spokesmen of certain industries.[529] Lending to foreign industries was assailed by the representative of the Dyestuffs corporation on the grounds that it would ultimately spearhead a counter-attack against American products on domestic and foreign markets.

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528. *Senate Hearings,* Vol. II, p. 397.

529. Prior to the Senate banking enquiries, Keynes had launched a scathing attack on the *Colonial Stock Acts* because they stimulated overseas investments which might otherwise have been used on the domestic market. "It follows from this," he wrote, "that large sums may flow abroad without there having been a vestige of deliberate calculation on the part of anybody that this is the best way of employing the resources in the national interest . . . . In short, the nineteenth century, as in so many respects, came to look on an arrangement as normal which was really quite abnormal." He illustrated this as follows: "Consider two investments, the one at home and the other abroad, with equal risks of repudiation or confiscation or legislation restricting profit. It is a matter of indifference to the individual investor which he selects. But the nation as a whole retains in the one case the object of the investment and the fruits of it; whilst in the other case both are lost. If a loan to improve a South American capital is repudiated we have nothing. If a popular housing loan is repudiated, we, as a nation, still have the houses. If the Grand Trunk Railway of Canada fails its shareholders by reason of legal restriction of the rates chargeable or for any other cause, we have nothing. If the underground system of London fails its shareholders, Londoners still have their tube." *The Nation and Athenaeum,* 9 August, 1924.
For antecedents of the controversy, see R. Harrod, *Life of John Maynard Keynes,* P. 348.

Conflict between investment banking and industrial circles now hogged the limelight. The only defence that finance capitalists were able to suggest, charged Garvin, is that they were encouraging foreign trade. "Your Commerce Department will expose this fallacy in detail to you, but the whole fallacy appears in the fact that Germany's export trade today, with her natural resources and only sixty million people, has been built up under these foreign loans until it equals our own export trade, with our natural resources and our hundred and twenty million people — she the borrower and we, the lender."[530]

Referring to the consequences of such policies on the industry with which he was directly concerned, Mr. Garvin maintained that "these international bankers have been persistently borrowing the savings of the American people and, for the bribe of huge commissions, have been loaning these savings to the international chemical cartel, or its constituent companies or allies, the cartel whose success is necessarily based upon the destruction of our own industry and our independence."[531]

The central thesis of finance capital was also assailed on another point. According to the critics, foreign investment restricted the expansion of

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530. *Hearings*, Vol. II, p. 528. Garvin illustrated his indictment by appending a list of foreign loans made to the German chemical industry between 1920 and 1929. The list is significant in the light it sheds on the impact of American investment on German industry in general and the chemical industry in particular.

President Woodrow Wilson's statement after the war, is pertinent to Garvin's revelations: "Our complete dependence upon German dyestuffs supplies before the war made the interruption of trade a cause of exceptional economic disturbance. The close relations between the manufacture of dyestuffs on the one hand, and of explosives and poisonous gases on the other, moreover, has given the industry an exceptional significance . . . ." Assistant Attorney-General Berge, commenting on this observation, declared that "despite this warning in 1919, we were only slightly better off, relatively, in respect of the arts of organic chemical manufacture twenty years later, when Germany decided the time was ripe for another attempt at world conquest." W. Berge, *Cartels: Challenge to a Free World*, Washington, 1946, p.7.

531. An example of the "huge commissions" to which Garvin referred are the loans of the House of Morgan to the British Government. A debate in the House of Commons indicated that for granting the British Government a credit of $100,000,000 in 1925—a credit which was never used—the Morgan firm, together with allied banking houses, received a commission of $2,500,000. *Parliamentary Debates*, House of Commons, Vol. 205, p. 1627; *The New York Times*, 5 and 6 May 1927.

America industry and agriculture and raised the rate of interest on borrowed domestic capital.

This is, of course, an ancient argument that harks back to the British Parliamentary Committee in 1813,[532] which denounced the speculative outflow of British capital, and repeated by successive British Royal Commissions on the Great Depression 1873-1895 and again by Keynes in his sallies on the Colonial Stock Act.[533]

The American finance capitalist' retort was that capital exported was "surplus capital" which, if used on the domestic money market would exercise a depressing effect on the level of the nation's business activities. Should the foreign investment process in the prosperity phase come to a standstill, the tendency towards a recession would, they claimed, be accelerated. Such observations were highly revealing, but the international financiers were not fully aware of their implications.

When Senator Harrison asked Dillon, director of the banking house of Dillon, Reed and Company, whether he was aware that foreign investment was instrumental in the contraction of credit on the domestic market and acted as a brake on the expansion of industrial plant, Dillon replied that he knew nothing of the sort. "I should think that if the credit were demanded and needed in this country, it would be used in this country. The only credit that is available for investment is the surplus of credit in this country." The witness was then cross-examined. "Am I to understand," asked the Senator, "that the rate of interest has nothing to do with our money going abroad, regardless of whether there was a surplus of credit in this country or not?"

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532. *Report of the Select Committee on Corn Trade*, 1812-1813, *Hansard*, First Series, Vol. XXV. It was the opinion of a Parliamentary Committee under the chairmanship of Sir Henry Parnell that international investment was a self-destructive process, since it directed capital to develop overseas areas which would ultimately compete with Great Britain and would "serve to improve other countries while we have so much of our own lands that stand in need of the same improvements." In Jacob Viner, "Political Aspects of International Finance," *Journal of Business*, University of Chicago, Vol. I, April 1928.

533. *Report of the Committee on Finance and Industry* (Cmd. 3897), London, 1931. See evidence of Josiah Stamp, Evidence, I, p. 256, and *The Problem of International Investment*, Oxford University Press, pp. 31-3.

MR. DILLON: I should say not.

SENATOR GORE: And if you were offered a 5% loan in this country and a 7% loan abroad, you accept the lower rate of interest unless there is a surplus to respond to the 7%?

MR. DILLON: If there is a demand for money in this country and you can get equally good security abroad at a higher rate, why, the demand in this country would probably have to meet that rate.

SENATOR GORE: So it is not always a question of surplus. It is somewhat a question of the rate.

MR. DILLON: No, it is a question of surplus, because this country could use its own money.

SENATOR GORE: If you call anything credit that goes abroad regardless of circumstance . . . then of course that ends it. That is a mere matter of definition.

MR. DILLON: I think that it . . . (interrupted).

SENATOR GORE: You would keep capital here and lend it at a lower rate of interest unless it entered some sort of definition of surplus.

MR. DILLON: I do not think that you could get it here at a lower rate. I do not know how you would control that.

SENATOR GORE: That is the point.

SENATOR COUZENS: It would automatically raise the rate in this country.[534]

The impression given in this senatorial *dialogue of the deaf* is that capital is a kind of international fluid which flows where the demand is greater and the rate of interest higher irrespective of national boundaries, unless it

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534. *Hearings*, Vol. II, P. 454.

finds barriers of various sorts. Patriotic sentiment does not control the international investment flow, which is guided by considerations of the rate of interest and the marginal productivity of capital; nor are investment bankers concerned about the use of the money they transfer so long as the security and the underwriter's profits are satisfactory and guaranteed.

As in the United States, the big time money men in the City came under withering fire both from industrial and labour votaries. The joint stock banks were indicted with favouring international investments to the detriment of domestic enterprise; the speculator rather than the small and medium size firm.

Both Keynes and Lloyd George pilloried investment banking practices in the City. "The City is the stronghold of reaction," the latter declared. "All the time when I was Chancellor of the Exchequer up to 1914, I had to fight the City . . . . No Government will ever get a big programme through unless it is prepared to face up to the reactionary money interests in the City of London."[535] Keynes's remarks were no less incisive.

The most draconian proposals for effective control of the banking houses came from the Labour Party, which at first contented itself with advocating the nationalisation of the Bank of England, but later went a step further in urging nationalisation of the joint stock banks as well.

The labour thesis was that the State should funnel investment savings into industry to ensure maximum efficiency of financial resources, and arrest the competition between private investment banking houses. Investment would be directed into production fields conducive to the attainment of full employment at the highest possible level, and this could only be brought about by a co-ordinated state and private investment policy.

This proposal was embodied by the Labour Party in its plan for a national investment board[536] — a plan which Keynes[537] approved. An alternative view was taken by the *Macmillan Report*, which, while favouring

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535. T. Johnston, *The Financiers and the Nations*, London, 1934, p. 138.

536. "Labour and Banks," *The New Statesman and Nation*, 10 March 1928.

537. "A New Economic Policy for England," *Economic Forum*, Winter 1932-1933, pp. 29-37.

a return to the pre-1914 British foreign investment pattern, rejected the Keynesian-Labourite approach and defended the joint stock banks.

It declared that Britain possessed a financial and banking organisation with a great historical heritage. "It is through and with that organisation that we have to work, for they alone are the repositories of the skill and knowledge and they alone possess the equipment necessary for the management of our financial affairs."[538]

But if the condition of American and British foreign investment germinated vituperative platitudes of industrialists and investment bankers, it also focused attention on another aspect of the debate—namely the fragility of foreign investments after the 1929 debacle when international capitalism turned out to be rudderless before the squalls of yet another Great Depression.

The Débâcle

The dramatic onset of the 1929 slump had a snowball effect on the structure of international capitalism. United States imports mainly consisted of primary products or partially fabricated goods not consumed directly but used for further manufacture. Raw materials, unprocessed foodstuffs, and semi-manufactures used by American industry constituted 6% of total imports at that time. Another 6%, (included in finished manufactures) consisted of newsprint and jute manufactures, which in reality are more in the nature of raw materials. From 1929 to 1932, United States imports fell from $4,400 million to $1,323 million. The importance of this unanticipated fall was that it meant a disastrous loss of income for primary producers, and by the mechanism of the multiplier an equally precipitous decline in their incomes and employment levels. Payments by the United States for service transactions were almost halved — from $1,962 million in 1929 to $999 million in 1932.

A similar capital-export pattern was observable. American long-term lending not only stalled but turned into an import of capital—largely a repatriation of American funds. From 1927 to 1929, long-term foreign loans averaged $978 million, in contrast to 1932 when there was an inflow of $251 million from abroad.

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538. *op. cit.*, p. 5.

The Department of Commerce estimated that dollar spending or investments abroad dived from about $7,400,000,000 for the three years 1927-1929 to $2,400,000,000 in 1932 and 1933—a reduction of 68% in the space of only three years.[539] Decline in economic activity, it concluded, was sharper and revival longer delayed than abroad, and this, in conjunction with the new tariff of 1930, produced a particularly severe ad prolonged decline in United States imports.[540]

But the 1930's were not the 1880's, and the antediluvian claptrap of economic liberalism could no longer be peddled in a world bankrupted, peopled with impatient men thrown on the scrap heap of starvation, with national economies reeling under the savage maulings of economic crises. Underlining these structural changes the author of the League of Nations *World Economic Report* (1933-1934) ruefully commented: "*Laissez-faire*, the spirit of private enterprise, freedom of trade, individual profits, and other familiar slogans which were current in the nineteenth century, have lost their popular appeal. They have been replaced by such notions as: fair price, fair wages, balanced trade . . .which indicates a transformation of the economic atmosphere."[541]

A satanic force had been unchained and no economic precedent could be invoked to combat it. In "past depressions," lamented the report, "after a fairly long and painful period of reconstruction and stabilisation, business enterprise could count upon renewed opportunities of profit under much the same conditions as existed before the depression began. At the present time, business enterprise emerges from its readjustment to find a very different situation confronting it." The economic outlook, they added, was "confused and unpromising" and "it would be idle to pretend that the evidence of increasing economic activity over a wide area is sufficient to indicate the final passing of the depression."[542]

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539. *op. cit.*, p. 173.

540. *Ibid*, p. 174.

541. Service d'études économiques: *Revue de la situation économique mondiale*, S.D.N., 1933-1934, pp. 15-16.

542. *op. cit.*, p. 15.

Similarly, for 1935, it appeared that international capitalism had not broken surface after its descent into the maelstrom, and that "the situation at the beginning of 1935, compared to what it was earlier appeared even in a more confusing and sombre light. In the majority of countries, it is true, that barometers of economic activity continued to rise slightly; but this upturn was, as has been rightly stated more 'superficial than profound'," [543] and with each day it became clearer "that progress was uneven, and the equilibrium between the economic units of which the modern world is composed remains on a precarious balance." [544] The Report concluded that "it would be vain to claim that the symptoms of a resurgence of economic activity in a vast region . . . . suffices to indicate that the crisis is definitely over." [545]

It was the terrifying ubiquity of the crush, its persistence and extraordinary impetus which gripped the attention of humanity. Writing in the middle of the capitalist wreckage, Frederick C. Mills stated that "the severity of the second post-war depression and the difficulty of overcoming it are largely imputable to the scope of this crisis. No nation, expect the Soviet Union, escaped. Industrial centres as well as colonial regions felt the shock of the general collapse." [546] Recovery was hesitant, belated and uneven. The initial resilience of the system seemed to have vanished. No longer could economists assert, as a British Royal Commission had done in 1894: "many of the evils to which our attention has been called are such as cannot be remedied by any legislation, but we may look forward with confidence to their *gradual amendment by natural forces* now in operation . . . ." [547] (Italics mine)

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543. Services d'études économiques: *Revue de la situation économique mondiale*, S.D.N., 1934-1935, p.7

544. *Ibid*, p.7.

545. *Ibid*, p.214.

546. *Prices in Recession and Recovery*, p. 37.

547. *Fifth and Final Report on the Great Depression*, Part I, p. 112, quoted in Helen Lynd, *England in the Eighteen Eighties*, Oxford University Press, 1945, p. 70.

Taking industrial production in 1929 as 100, the figures for 1932 are:

TABLE 20. *Industrial Production: 1932*

1929 = 100

USA	53	Hungary	82
Germany	53	Roumania	82
Canada	58	UK	84
Poland	63	Holland	84
Czechoslovakia	64	Sweden	89
Italy	67	Norway	93
Belgium	69	Japan	98
France	72	USSR	181

Source: W. Arthur Lewis, *Economic Survey*, 1919-1939, London, 1949, p. 61.

Hot Money and Flight Capital

United Nations economists, writing in 1951, described the "heavy and frequently unpredictable movement of vagrant short-term capital" as being a salient feature of the inter-war period.[548]

The short-term capital market and the entire payments mechanism remained disorganised after the First World War. Between 1919 and 1930, the USA provided $11,600,000,000 to borrowers by way of subscriptions to new foreign issues and new direct investments abroad — an annual average of about $965,000,000. In the same period, American short-term assets abroad burgeoned by something over $1,000,000,000. With the onset of the crush, there was a trend reversal in American long-term capital movements with the virtual cessation of foreign lending after 1930, with annual amortisation receipts and continued foreign purchases of foreign securities in this market far outweighing such new lending as took place. A net return flow of United States long-term capital to the tune of $1,200,000,000 was recorded for the period 1931-1939. In addition, there was a continual withdrawal of American short-term capital from abroad

548. *International Capital Movements during the Inter-War Period*, New York, 1951, p. 2.

after 1931, the amount outstanding declining from almost $2,000,000,000 at the end of 1930 to $600,000,000 at the end of 1939.[549]

The classical equilibrium notion that international capital movements occur as a result of interest rate differentials in various national units, and that these differentials are the resultant of a relative scarcity of capital in the borrowing country found no confirmation in the abnormal transfers in the inter-war period. Indeed, in contrast to Fanno's belief, it is entirely arbitrary to make a distinction between *abnormal* and *normal* capital transfers and use the pre-1914 international investment pattern as the criterion of normality.[550]

The stricken victim refused to rally to classical medicine. The financial tornado that struck the original homeland of economic liberalism with such violence in 1931 led William Brown to say that it was well recognised within the Bank of England that a high bank rate would not have contributed to the solution of England's "fundamental problems," and that "the time was past when the British, justified by the knowledge of their great commercial strength, could boast that a 10% bank rate could pull gold out of the earth."[551]

Indeed, American foreign investment, as an American senatorial commission stated in the thirties, was "one of the most scandalous chapters in the notoriously corrupt history of American investment banking."[552] The

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549. *U.S. in World Economy*, p. 90

550. M. Fanno, *Normal and Abnormal International Capital Transfers*, Minnesota University Press, 1939, p. 22.

551. W.A. Brown, *The International Gold Standard Re-Interpreted*, p. 1024.

552. According to the authors of the Report, "the record of the activities of investment bankers in the flotation of foreign securities is one of the most scandalous chapters in the history of American investment banking . . . . The sale of these foreign issues was characterised by practices and abuses which violate the most elementary principles of business ethics. . . . Far from exercising discrimination in relation to these issues, the bankers failed to check adequately the information furnished by foreign officials; ignored bad debt records and bad moral risks; disregarded political disturbances and upheavals; failed to examine, or examined only perfunctorily, economic conditions in foreign countries; failed to determine whether the proposed uses of the proceeds of loan issues were applied

(Continued next page)

lessons of this financial skullduggery, however, were not forgotten by Third World primary producers preparing to embark on industrialisation in the post-1945 period. A characteristic of direct investments in many of the primary producing areas at that time was "the very high price, in the form of high interest rates and discounts, which borrowing countries had to pay for loans received and the fact that while interest rates tended to decline over the period, the average interest on outstanding loans tended to increase owing to the gradual substitution of new debts for pre-war loans."[553]

As a result of a price dip, continued the report, debtor countries experienced immense difficulties in adjusting their international transactions to a position in which they did not receive foreign capital, but rather had to assume the burdens of net capital transfers. "Moreover, in the majority of debtor countries the worsening of the terms of trade became an additional disadvantage."[554]

High profitability of these investments was self-defeating as the crash snowballed, for it helped to undermine the debtor countries' balance of payments and so exacerbate the collapse. Indeed, the instability of the less developed debtor countries' external transactions (temporarily masked as long as foreign investments continued to enter) became all the more desperate, since considerable sums of capital were lent on short or medium term. The investment pattern suggested that "foreign investments in manufacturing for the domestic market of the capital-receiving country were relatively small."[555]

Attempting to synthesize the lessons of inter-war international investment instability and its sequel, a US Department of Commerce

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(Continued from page 250) toward the purposes specified in the loan contracts; failed to ascertain whether revenues pledged for the service of loans were collected and properly deposited in accordance with the agreements; and generally indulged in practices of doubtful propriety in the promotion of foreign loans and in the sale of foreign securities to the American public." *Report of the Committee on Banking and Currency on Stock Exchange Practices*, Senate Report, 1455, 73rd Congress, 2nd Session, 1934, Vol. 3, pp. 125-6.

553. *International Investments in the Inter-War Period*, p. 66.

554. *Ibid*, p. 67

555. *Ibid*, p. 66.

publication urged continuity in dollar capital outflow: "It would be tragic indeed if the United States, after a period of renewed full participation in the world economy, were to permit another abrupt fall in the supply of dollars to disturb the re-created international trading and financial mechanism, whether wilfully through increased trade restriction . . . misbehaviour of foreign investment, or involuntarily through the improper functioning of the domestic economy."[556] It is noteworthy to recall that these exhortations were brandished in 1944, and were supposedly a blueprint for American foreign economic policy in the years ahead.

The author, distressingly, tells us nothing about how this "continuity" in the investment mechanism can be maintained in order to sustain stability. Is there a mechanism in the capitalist engine which guarantees "continuity," and which is simultaneously immune from violent oscillatory movements and which does not usurp the allocative functions of the price mechanism? Indeed, as Joan Robinson reminds us no mechanism "has yet been suggested which can prevent lending from being erratic in modern conditions except long term international planning."[557] The highly touted "inbuilt stabilisers" of successive US administrations have not lessened the gyrations of these capital flows.

Stability has not accompanied American growth. In its origins, the depression was almost entirely an American phenomenon; to the extent that activity in other countries declined it was mainly due to deflationary forces originating in that economy. Recovery was belated, notwithstanding massive deficit financed infusions of the New Deal administration. Even more precipitous than the 1929-1932 slump was the 1937-1938 depression, the Federal Reserve Board's index of industrial production tumbling from 117 in August 1937 to 80 in January 1938.

In the summer of 1939, *The Economist* spoke in sombre tones of "a permanent bias in the American economy towards deflation, which heavy Government expenditures can only temporarily and precariously reverse"

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556. *US in the World Economy*, pp. 24-5. The gap between performance and intention has been particularly wide in the post-war years, and recessionary trends in the American economy foreshadow a repetition of the thirties.

557. *Economic Journal*, December 1945.

and of "recovery in America turning into stalemate."[558] As to recovery in Britain, Beveridge estimated that even at the height of the cyclical upswing there were 1.5 million unemployed representing more than 10% of the labour force. This, he said, "was the best that the unplanned economy could do," and forecast that "a repetition of 1929-1932, even more severe, was setting in." And it was his sombre view (one which he considered "commonplace") "that the only sovereign remedy yet discovered by democracies for unemployment is total war."[559]

TABLE 21. *Industrial Production and Foreign Trade of United States, 1937-1939* (Seasonally adjusted indexes, 1923-1925=100)

	PERIOD	INDUSTRIAL PRODUCTION	IMPORTS	EXPORTS
1937	1st quarter	116	82	64
	2nd quarter	117	87	78
	3rd quarter	114	81	78
	4th quarter	91	67	75
1938	1st quarter	80	50	74
	2nd quarter	77	46	72
	3rd quarter	87	52	65
	4th quarter	101	54	62
1939	1st quarter	99	52	63
	2nd quarter	94	57	68
	3rd quarter	105	57	71
	4th quarter	124	72	77

Source: Department of Commerce, *Survey of Current Business*, 1940 Supplement.

558. A "Distorted Boom," *The Economist*, 3 June 1939.

559. W.H. Beveridge, *Full Employment in a Free Society*, London, 1944, p. 112.

The crisis revealed the sheer bankruptcy of global capitalism and hence the need for palliatives, and face-saving gimmicks.

Another glaring feature of those crisis-ridden years was the proliferation of economic blocs based on imperial preference functioning within a colonial orbit. Cunard Steamship Company chairman, Sir Percy Bates touched the nerve centre of this diseased organism in a speech made on April, 1935: "We are going through a war," he said, "a world war. The arms that are being employed are not battleships, armies or aircraft, but tariffs, quotas and currencies. No international monetary standard is recognized, and every time that a tariff, a quota or a currency varies, one is confronted with a manoeuvre, a hostile manoeuvre, a war manoeuvre. The worst of all is the reluctance to admit officially the existence of a state of war."[560] Is this not the profile of the 1990s?

Formation of economic blocs signalised a victory of the restrictionists over international economic co-operation. Another diabolical instrument was added to the existing panoply of arms.[561] Relative importance and percentage of total trade of the leading imperialist countries is shown in Table 22.

In addition to such *external* forms of restrictive weaponry, the lessons of the thirties focused attention on the tempo of economic concentration.[562] The growth of monopoly quickened during the twenties and the thirties—a development which should not be underestimated, since it spotlights the structural changes that had taken place within the industrial framework in the direction of "administered" prices and price leadership. Existence of an oligopolistic price structure in industrialised regions is a cogent reason why the less developed countries could not use the neoclassical scaffolding in their industrialisation drives.

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560. Service d'etudes économiques: *Revue de la situation économique mondiale*, 1934-1935, S.D.N., p. 276.

561. M.S. Gordon, *Barriers to World Trade*, New York, 1941; *League of Nations, Commercial Policy in the Inter-War Period: International Proposals and National Policies*, Geneva, 1942, P.W. Bidwell, *The Invisible Tariff*, New York, 1939. League of Nations, *International Currency Experience*, Geneva, 1944. F.A. Hayek, *Monetary Nationalism and International Stability*, London, 1939.

562. *Revue de la situation économique mondiale*, S.D.N. 1935, p. 212.

TABLE 22. *Trade of Certain Countries With Their Imperial Blocs: 1929-1938*

COUNTRY	IMPERIAL BLOCS	TRADE WITH BLOC, AS PERCENTAGE OF TOTAL TRADE					
		IMPORTS			EXPORTS		
		1929	1932	1938	1929	1932	1938
UK	British Empire	30	36	42	44	45	50
UK	Other sterling countries[a]	12	13	13	7	10	12
France	French Empire	12	21	27	19	32	28
Japan	Japanese Empire[b]	20	33	41	24	30	55
Germany	6 countries of South-East Europe[c]	5	6	12	5	4	13

a. Sweden, Norway, Finland, Denmark, Egypt, Iraq, Estonia, Latvia, Portugal and Siam.
b. Korea, Formosa, Kwantung and Manchuria
c. Bulgaria, Greece, Hungary, Roumania, Turkey and Yugoslavia.
Source: League of Nations, *Review of World Trade*, 1938, Geneva, pp. 34-5.

The concept of "workable competition" was spawned to explain competition between large corporate units. Despite US anti-trust laws that blossomed after 1899, economic concentration made rapid headway. "The rise of the modern corporation has brought a concentration of economic power which can compete on equal terms with the modern state . . . (and which) the future may see possibly even supersede it as the dominant form of social organisation", stated Berle and Means.[563]

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563. A.A. Berle and G.C. Means, *The Modern Corporation and Private Property*, New York, 1933. Also the research project under the auspices of Means, *The Structure of the American Economy, Part I. Basic Characteristics.* National Resources Planning Board, Washington, 1939. The process of concentration has continued. The Federal Trade Commission reported in 1947 that 113 largest manufacturing corporations owned 46% of the property, plant and equipment employed in manufacturing. *The Concentration of Production Facilities*, Washington, 1947. The consequences of this deleterious trend have been spotlighted in V. Perlo's scholarly work, *The Empire of High Finance*, New York, 1957.

The optimistic and more generalised view, is that competition as a regulator is no longer desirable. Although the ascendancy of the giant corporation was a cause of panic in the nineteen thirties, certain apologists have now become its partisans since it corresponds to the exigencies of the technical complexity of our society. Galbraith takes the stance in his *American Capitalism* that a "vast distance separates oligopoly from the competition of the competitive model." It is a measure of the magnitude of the disaster of the old system," he says, "that when oligopoly or crypto-monopoly is assumed it no longer follows that any of the old goals of social efficiency are realised."[564] And again: "By evolution, from a system where nearly everything worked out for the best, economists found themselves with a system where nearly everything seemed to work out for the worst."[565]

In the view of Arthur Burns, one of Eisenhower's former economic advisers, decline in competition in modern industry was due to the inevitable impact of technological innovation on methods of production and distribution, enhanced by institutional changes. Burns, like Galbraith, welcomes oligopoly and questions the desirability or possibility of splitting a giant corporation into smaller units. According to this view, anti-trust legislation and the liberal assumptions on which it was predicated need reformulating in the light of a rapidly evolving technical world.

The main objective of such regulation of the size of firms, Burns argues, is to attain the fruits of competition without planning. "Yet it requires planning of a peculiarly cumbrous kind. The state must evolve criteria of competitive conduct in order to be able to calculate the minimum number of firms likely to induce competition. It would be necessary to keep a constant watch upon the behaviour of producers and to increase the minimum number of firms whenever quasi-monopolistic behaviour appeared. The state might find it necessary to seek some means of adjusting the actual number of firms to the minimum number desired

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564. J.K. Galbraith, *American Capitalism—The Concept of Countervailing Power*, Cambridge, Mass., 1952, pp. 45, 46, 51.

565. *Ibid.*

when voluntary entrants into the industry did not attain the required number."[566]

This is what the State would be compelled to do to ensure competition. But such administrative measures, says Burns, are self-defeating, because they mistake the symptoms for the disease and are incompatible with the maintenance of competition. The reason is that wherever a business unit attains the maximum size permitted under Federal Law, the stimuli present under perfect competition would operate only in a very changed form, with the result that "the inducement to improve methods of production in order to reduce prices and thereby capture an increasing share of the total business is eliminated. There is no further inducement to price competition by such a firm."[567]

More recently, he affirmed that under the anti-trust laws "we have failed to achieve a competitive system at all resembling that which was in the minds of the economists of the last century . . .," and he indicates his conception of the earlier classical view when he says: "Only pure price competition can produce the results which most people have in mind when they defend what they call in general terms 'the competitive system'."[568] In this context trust-busting becomes superfluous.

Schumpeter excoriated the Wicksell-Marshall models when he stated that the existence of a few large competitors was adequate for the rational allocation of resources and distribution of income and was organisationally superior. The competition that counted was that "from the new commodity, the new technology, the new source of supply, the new type of

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566. A. R. Burns, *The Decline of Competition*, New York, 1936, pp. 525-6.

567. *Ibid*, pp. 525-6.

568. "The Effectiveness of the Federal Antitrust Laws: A Symposium," E.M. Keezer, ed., *American Economic Review*, June 1949, pp. 691-4. Summarising the failure of the New Deal liberal approach Galbraith has declared that "anti-trust laws cannot positively alter the basic structure of a capitalist economy." With regard to the failure of the T.N.E.C. he adds ironically: "After declaring its faith in the anti-trust laws, an act of piety that never fails to sanctify the failure of a liberal's imagination, it submitted not a finding but an apologia, and quit." "Monopoly and the Concentration of Economic Power," in *A Survey of Contemporary Economics*, ed. by H.S. Ellis, Philadelphia, 1948. *Cf.* Administered Prices: *Hearings before the Subcommittee on Antitrust and Monopoly of the Senate Judiciary Committee, 85th Congress, 1st Session, July-November*, 1957. 4 parts, Washington, D.C.

organisation . . . ." Despite some recognition of monopoly, "neither Marshall[569] and Wicksell nor the classics," he argued, "saw that perfect competition is the exception and that even if it were the rule there would be much less reason for congratulation than one might think."[570]

Similarly Berle flagellates the liberal trust-busters. Under present American conditions, he says, "competition of great units (which does exist) produces the same results as those which used to flow from competition among thousands of small producers . . . and it is indefensibly disingenuous to assert that these operations are primarily following economic laws more or less accurately outlined by the classical economists a century ago, when the fact appears to be that they are following a slowly emerging pattern of sociological and political laws relevant to the rather different community demands of our time."[571]

By the end of the thirties belief in the "discipline of competition" had outlived its utility.[572] Until the Keynesian revolution, price flexibility was considered a *conditio sine qua non* for the operation of the capitalist engine. But this was now questioned. As Oskar Lange[573] demonstrated, falling prices tended to generate a decline in national income and employment through the adverse effect of falling prices on consumers' and capitalists'

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569. Marshall's major premise is seen in the following passage: "We are investigating the equilibrium of normal demand and normal supply in their most general form: we are neglecting those features which are special to particular parts of economic science, and are confining our attention to those broad relations which are common to nearly the whole of it. Thus we assume that the forces of demand and supply have free play in a perfect market; there is no combination among dealers on either side, but each acts for himself: and there is *free competition*; that is, buyers compete freely with buyers, and sellers compete freely with sellers. But though everyone acts for himself, his knowledge of what others are doing is supposed to be sufficient to prevent him from taking a lower price or paying a higher price than others are doing . . . ." *Principles of Economics,* London, 1890, p. 402.

570. *Capitalism, Socialism and Democracy,* New York, 1947, p. 78.

571. A.A. Berle, *The 20th Century Capitalist Revolution,* New York, 1954, pp. 11-12.

572. *Cf.* Joan Robinson, "The Impossibility of Competition" in E.H. Chamberlain (ed.), *Monopoly and Competition and Their Regulation,* New York, 1955.

573. Oskar Lange, *Price Flexibility and Employment,* Bloomington (Indiana), 1944.

expectations, causing a general leftward shift in demand curves without any apparent limit, and through the effect of falling factor prices, especially wages, on aggregate commodity demand. Both these tendencies could lead to a cumulative price fall having adverse effects on national income and employment.

On the theoretical plane, monopolistic price theory took the place of orthodox price theory and the labour theory of value.[574] The fact that modern theory offers a pseudo analytical framework of *both* competition and monopoly has been considered one of its outstanding merits. To Sweezy, the analytical value of modern theories of monopolistic and imperfect competition are, however, of little use, since no *general theory of price determination under monopoly* exists in the sense of being a determinate theory of the *total* price situation.

When the power of limiting supply is in the hands of producers, so also is the power of setting prices. Hence to determine theoretically, and with a useful degree of generality at what point prices will be set is impossible. There are too many diverse factors which enter into the determination of a given price to permit the construction of an accurate theory with any but the most limited applicability. This is demonstrated by attempts of orthodox theory to establish objective laws of price under conditions of total or partial monopoly. Apart from a few empty propositions such as that price will be set where profits are maximised, "monopolistic price theory rapidly turns into a catalogue of special cases, each with its own particular solution. No reasonably general laws of monopoly price have been discovered because none exist."[575]

Unprecedented rise of concentration, the spread of market imperfections, the absence of price flexibility, intensified and purposive public

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574. This formulation is perhaps too categorical and to Marxian economists who still conceive of the theory of value as a sacred cow such a statement is heretical. *Cf.* R. Guiherneuf, *La Problème de la Théorie Marxiste de la Valeur*, Paris, 1952. M.H. Dobb, *On Economic Theory and Socialism, Collected Papers*, London, 1955; R.L. Meek, *Studies in the Labour Theory of Value, London*, 1956. The last two academic economists do not deny the emergence of oligopolistic capitalism or its implications for the labour theory of value. They are rather of the opinion that the theory of value is an adaptable conceptual tool for the understanding of capitalism in its later stages of growth.

575. *The Theory of Capitalist Development*, Oxford University Press, 1942, pp. 270-1.

intervention in the leading capitalists countries and buffetings of the world economic crises are some of the causal conspirators that spiked the neo-classical guns. No longer could incantations be made to the *sanctum sanctorum* of perfect competition.

Liberal free enterprise, which was neither free nor as enterprising as its votaries believed, was to become warped and diseased by institutional changes inherent in state interventionism, so that by the end of the thirties "economic liberalism," in the sense of exclusive reliance on the anonymity of market forces for rectifying balance of payments disequilibria and factor allocation, had become relics of a remote and best forgotten past.

Even in the eyes of Jacob Viner, one of its leading devotees, economic liberalism and its doctrinal penumbra have now degenerated into an exercise in logic divorced from reality. Despite his belief in its merits in its period of dominance, he is convinced that it would be futile to rehabilitate it since it has no relevance in a world of the mega corporation, managed trade; administered and inflexible national price structures and of devastating instability in exchange rates. "The classical theory," he states, "is not directly relevant for such a world, and it may be that for such a world there is and can be no relevant general theory."[576] Coming from such a believer the conversion is no less remarkable.

State intervention in both the industrialised and less developed areas from Versailles to Munich was a direct sequel of the forces fired by the big guns of 1917; more specifically by those of 1929 and the stimuli of Keynesianism. Historically, "economic planning is thus in our countries very much a product of the gradual development of economic life itself, and has been spurred and brought to completion by economic crises."[577] In many countries, the area of public initiative has been extended, with the price mechanism playing a subordinate role. Even in countries where private ownership is still the dominant property relationship, economic activities of governments have assumed the vital function of co-ordination and of stimulating the level of business activity either by enlarging

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576. J. Viner, *International Economics*, Glencoe, 1951, p. 16.

577. *The Manchester School of Economic and Social Studies*, January 1951, Vol. XIX.

the scope of the public sector or by having recourse to financial planning via fiscal and monetary instruments.

Considering these changes in what Fernand Braudel baptized as the *"langue durée"*, it is not astonishing that this trend has become so tangible. Very few of them are prepared to subscribe to liberal theory of foreign trade, or to base their economies on the libèral article of faith that a return to the uncontrolled non-discriminating multilateral trading pattern would result in a maximisation of income in accordance with the doctrine of comparative costs. Within the hegemonic states that house the corporate economic gulag the share of the public sectors in national income hovers between 35 and 45 per cent.

In our final chapter we shall examine why state interventionism has assumed its present importance, (notwithstanding privatization are de-regulation) attention being centered on the indicators of underdevelop-ment, the scope of which makes economic planning indispensable to varying degrees and which is the inevitable corollary of certain irrevers-ible historic-economic antecedents.

5

Emergence of Interventionism

By the end of the thirties the Keynesian approach to problems of economic stabilisation and full employment had become generalised.[578] In both developed and underdeveloped capitalisms the State was called upon to assume new functions, a trend that was to be accentuated by the exigencies of a war economy. Industrial slack had to be taken up; the vestigial remnants of unemployment wiped out; certain critical bottlenecks removed; and for this to be achieved in the shortest possible span market criteria were jettisoned and replaced by the planned or quasi-planned allocation of resources to the military establishment and even to the civilian sector.

The swiftness of the great transformation called for deficit financing on a hitherto unparalleled scale, thus generating inflationary pressure that had to be counteracted by loan campaigns, tax boosts, price ceilings, rationing and various kinds of direct and indirect controls over resource allocation. Even when hostilities ended and cold war policies became manifest the trend continued. Referring to the United States, John McCloy, Chairman of the Board of Directors of the Chase Manhattan Bank stated: "This revolution in our national security has had one great effect—that few of us welcome but none of us can ignore. It has added tremendous weight to the place of government in our economy."[579]

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578. State interventionism was not only a characteristic phenomenon of the advanced so-called capitalist democracies; it was equally evident in both fascist Germany and Italy. In Mussolini's words: "State intervention in matters of industrial production only takes place if private initiative is absent or inadequate, or if the interests of the state are at stake. Such intervention may occur in the form of indirect control, joint enterprises or direct ownership." *Labour Charter*, Article IX. This was the doctrine of applied Keynesianism.

579. "A New Background for Banking," *American Bankers Association*, press release, 19 October 1954.

It is partly due to these trends that general models of trivialized liberal economic orthodoxy, although always divergent from economic reality, are now even more so today; and although, as Myrdal puts it, the perfect market has never existed, "the important thing is that for a long time reality has been moving steadily further and further away from this liberalisation."[580]

Discarding neo-classical claptrap, he goes on to claim that its advocates "indulge freely in the popular fallacies of less than half truths, that state intervention has sprung from a desire to tamper with economic life, and that the economic maladjustments in the world are the results of these interventions. And so great is our nostalgia for the times before the wars and the crises that if they write well their books will be read and quoted as gospel truths by businessman and politicians, whose daily labour it is to regulate markets and direct national economies."[581] Whereas interventionism emerged as a therapeutic to capitalist crises, in the underdeveloped areas its pioneer role stemmed directly from the exigencies of under-development and the traumas of colonial rape.

Summing up the declining relevance of what Keynes called the "classical medicine," Jacob Viner has underlined the discrepancies between the phenomenon of international integration today and what it was in the last century.[582]

The nineteenth century approach has turned into its opposite characterised by countervailing forces: government price supports for agricultural output, state trading monopolies, commodity agreements and quantitative restrictions in their plethoric varieties, trade unions and collective bargaining, labour legislation and wage regulation, minimum wages and extensive social security programmes, fringe benefits and the promise of workers participation in management.

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580. "The Trend Towards Economic Planning," *The Manchester School of Economic and Social Studies*, Vol. XIX, January 1951.

581. *Ibid.*

582. *International Economics*, Glencoe, 1951, p. 136.

Today this significant departure applies with greater force to the industrialisation of the periphery. The agonising problems with which they are faced make rapid development a question of life and death. Crucial, therefore, is not merely stabilisation of effective demand or maintenance of full employment, but the remoulding of their national economies. Their current problems never had a counterpart in the original homeland of *laissez-faire*, or for that matter in any of the "free-enterprise" countries of today. With illiteracy girding almost the entire nation and with health, nutritional standards that are sub-human, bedevilled by a cataclysmic demography, their problems are too deeply rooted, too complex to be even approached with a nineteenth century liberal benchmark, too interdependent to be tackled on an individual sector basis.

The underdeveloped areas are not unaware of these contradictions, and in many of them, as in Asia, economic planning has now become a powerful leverage varying in intensity from that of China to mixed economies of a New Deal plumage.

Necessity of planning springs from the magnitude of their problem, for it is only such a state — a state that has broken unequivocally with the basis of a feudal comprador class — that is capable of raising inadequate living standards to something above the present abysmally low levels. Only such a state is able to tap the dormant financial hoards and galvanise the surging creative *élan* of the masses: only it can set in motion the administrative machinery of development unfettered by corruption, kickbacks and rake-offs to the extent needed to industrialise systematically and democratize the immense Afro-Asian-Latin American land mass.

The architects of the Indian five-year plans are theoretically aware that in promoting capital formation and stimulating the application of new techniques as well as the overall realignment of the productive forces and class relationships the State must play a crucial role. Although it does not mean the liquidation of the private sector it implies a systemic and progressive widening of the public sector and a reorientation and subordination of the private profit sector to the needs of a democratized planned public profit economy.[583]

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583. *The First Five-Year Plan: A Summary*, Government of India, Planning Commission, 1952, p. 9.

Public investment programmes are being pushed forward. In China, public investment is virtually the sole source of capital formation. Successive Indian Plans guaranteed rapid strides in the public sector which has become the "guiding sector" of the national economy. In most Asian countries, "governments have concluded that they cannot afford to relax their initiative and leadership in economic development."[584]

Ceylon's late Prime Minister, Mr. Bandaranaike, argued: "We have to correct a colonial society and transform it into a free society. It is not possible to solve our problems on capitalist lines of development, although we do not entirely exclude private enterprise."[585]

In these countries planning means more than merely repairing a dilapidated market structure. Market criteria do not provide adequate tests for the required structural adjustments, notably when it comes to macroeconomic decisions concerning the integration of rural and urban sectors. These adjustments cannot be made on the marginal principle. Tackling individual problems is of course necessary, for growth can be inhibited by inappropriate monetary, fiscal and foreign policies. But a planned economy demands more than this. In fact, the relative rates at which heavy industry, light industry, agricultural improvement, transport and communications, housing and the like are expanded and are to be coordinated must be a matter of purposive policy intervention.

The traditional type of marginal economic calculus is woefully insufficient, for the choice frequently involves questions of discontinuous change; and one wants to know not only the direct cost-benefit ratios of alternative programmes, but also the relative demonstration effect, the influence that these would exercise on enterprise and technical change, and equally the Myrdalian spread effects that flow from the synchronised acts of planned domestic investment. The argument need not revolve around the sterile debate of the choice of allocating resources to either capital-intensive or labour-intensive industries, for as Maurice Dobb puts it "the choice

584. United Nations, ECAFE, *Economic Development and Planning in Asia and the Far East, Policies and Means of Implementation*, Bangkok, 1956, p. 29.

585. *New York Times*, March 23, 1957.

between more of less capital intensive forms of investment has nothing to do with existing factor proportions . . . but on precisely the same considerations as those which determine the choice between a high and a low rate of investment . . . namely the importance to be attached to raising consumption in the immediate future compared with the potential increase of consumption in the more distant future which a particular rate of investment and form of investment will make possible."

The job is one of directing growth so that it becomes cumulative at a certain level of per capita income. The barriers to economic progress are gigantic, and nothing short of a social revolution will succeed. Structural change is the most important aspect of development, if aggregate output and capital formation are to exceed sharp demographic rises.

Governments in some of the less developed countries have enumerated many of the sectors to which the state should direct its resources. Many of their projects embrace educational facilities (schools, technical training centres, universities, and even technical personnel); health and welfare facilities, transport and communications, railways, inland waterways, maritime transport, harbour works public works, power development (construction of power stations, rural electrification) agricultural and forest improvement (land reclamation and improvement), and storage facilities.

In other countries (particularly in China and to a far lesser extent in India) this enumeration covers merely the fringe of the public sector which will increasingly embrace the capital-intensive sector, i.e. the iron and steel, engineering and heavy chemical industries. These are the industrial nuclei which constitute strategic growing points radiating growth impulses to every nerve cell of the body economic.

In the underdeveloped countries the choice of economic development by the State is forced on it by a constellation of economic, political and social forces. It is not merely a matter of "correcting" the legacy of a colonial society, as Bandaranaike asserted, but rather remoulding the social class relations. Take the case of savings. One of the crucial determinants of a country's growth is its propensity to save. This is not an automatic process. So crucial is the importance of the role of savings that it has been argued that the causal origins of any industrial revolution cannot be found unless we discover why savings increased relative to

national income. With all this, however, savings should not be raised to the status of a fetish. The rate of growth depends on the proportion of income that a country wishes to save and invest, as well as on the average productivity of capital. Thus the fundamental problem in the periphery is to achieve a high level of savings and investment and ensure that it is piped into socially desirable channels.

Drastic social and political surgery is mandatory to guarantee this transformation, and it is at this juncture that the State is called upon to play a decisive role.

During the early stages of Japan's industrial gestation in the years 1895-1914, she was able to direct 15-20% of her national income into capital formation. Such a phenomenal rate of savings would have been impossible without the correlative social changes telescoped into the two preceding decades when the Japanese Government took the initiative in establishing a metallurgical industry, model factories equipped with the last word in Western techniques. These savings were squeezed out of the rural population. Moreover, the profits derived by the Mitsui, Mitsubishi, Sumitomo, Okura and other Zaibatsu from various Government contracts were colossal. "There is no doubt that this policy greatly enhanced the power of the financial oligarchy, especially in view of the ridiculously low prices at which the government sold its model factories."[586] (They were in fact sold to the large capitalists for 15 to 30% of what they cost the Government.) Whatever the wisdom of this decision, the crux of the matter is that the Government was able to transform a potential surplus into an actual economic surplus, and, at a certain stage of growth, effectuate a transfer to the private sector without a resultant fall in savings.

Given the high degree of awareness of their technical and social backwardness, the less developed areas are faced with much the same decision as Japan in the post-Meiji period. Examining the role of Government in their development, Ursula Hicks claims that "the part which private enterprise is likely to play in this is wholly small-scale and does no more than nibble at the problem. Whatever the nature of industrial development it is seldom of a kind to attract private capital save in directly owned small-scale development. The bulk of the work of starting industries must, therefore, be also undertaken by governments."[587]

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586. E. Herbert Norman, *op. cit.*, p. 131. Also I.I. Kramer, "Land Reform and Industrial Development in Meiji Japan," *Land Economics*, November 1953.

Similarly after underlining the weaknesses of the industrialisation process in Mexico, Mosk suggests that what the economy needs "at the present time is best described as planning" in the sense of the fixing of "an order of priorities, first of all for each field of development, and then for all fields combined." He suggests that projects which are to be established by government activity should go beyond this and provide suitable instruments for influencing both the volume and direction of the private investor.[588] Plans (if they can be called that) of private enterprise, however, do not always dovetail with the large-scale industrialisation drives of many of these countries. Expansion of the capital goods sector and electrification are spheres of activity which either do not lend themselves to direct investment or are exclusively reserved to public initiative in the industrialisation plans.

The existence of certain public services — a prerequisite for development, which would stimulate external economies — is hardly likely to attract foreign or domestic private capital, unless these external economies serve directly to facilitate the production of certain raw materials or plantation cash crops.

Much has been written on the necessity of Marshallian external economies since 1945. By that concept is meant a downward shift in the marginal and average cost curves of individual firms that are likely to result from successive mutations in the historical complex of industrial, demographic and social changes. Not merely has this notion received tremendous publicity in American academic literature, but we find the argument advanced that in so far as "external economies" constitute a point of departure for sustained growth, it would be in the interest of the less developed countries to ignore, or relegate basic industries and concentrate on the expansion of various public utilities. This is the familiar thesis of the *Paley Report*.

Historical evidence for the stark refutation of this argument exists in abundance, and hence the statement of Arthur Lewis that an "extensive network of communications is the greatest blessing which any country can have from the economic point of view," is fallacious viewed in the power context of colonialism. We have already seen to what extent the

587. *Revue de Science et de Législation Financières*, January-March 1952.

588. *Industrial Revolution in Mexico*, University of California Press, 1950, p. 307.

railway, and other external economies, not merely failed to boost the take-off into sustained growth in India, but acted as an inhibitor. The question must once more be posed: in the interest of whom are these external economies advocated — in terms of the profit maximisation of the foreign investor, or the welfare of the peoples in whose lands they are undertaken?

In his distinguished work, Furnivall noted that railways are the main item under the head of public works, and in Africa they accounted for about three-quarters of total loans raised by governments of British territories. Although some were built for strategic ends, the usual purpose was to open up the interior to trade. It is usually assumed that railways act as civilisers "but Negro slavery was justified on the same grounds." Whether closer contact is beneficial or not depends on its aims and results. In cases where thousands perish due to railway construction as in the Belgian Congo "or a whole people fades away, it can only be regarded as beneficial to them on the ground that they are better dead." He adds: *"Thus the general belief in the intrinsic value of roads, railways and other forms of public works as instruments of native welfare must be dismissed as an illusion . . ."*(Italics mine)

External economies are not preconditions of industrialisation, but, as in the core countries, have tailed it, constituting that social overhead capital indispensable for the expansionary momentum of an industrial economy.[589]

This type of investment, if it is to bear fruit in the form of public welfare, cannot be undertaken by private investment — foreign or domestic. Thus in the case of irrigation projects villagers naturally turn towards the State. "It is clear," states the Indian Planning Commission, "that, in the transformation of the economy the principal role must be

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589. For a more detailed study, cf. ECAFE, *Economic Development and Planning, op. cit.*, p. 28. Besides the problem of external economies there are two fundamental differences between the growth structure of the nineteenth century American economy and that of the underdeveloped countries today. In the first place, the immense agricultural resources of the Mississippi valley and the vast fertile empty lands of the west represented an ideal resource base for a flourishing national economy. With certain notable exceptions, such as Brazil, the less developed countries do not possess such a comparable starting-point. In the second place, the world economic configuration, from the end of the American Civil War to 1914, favoured North American economic development.

assumed by what is called the State." "Whether one sees the problem from the point of view of the formation of capital, the application of new techniques, the extension of social services, or the global adjustment of productive forces and class relations, one is led to the inevitable conclusion that only a rapid increase in the economic and social responsibilities of the State is capable of satisfying the legitimate desires of the people."[590]

Speaking of the Middle East, Doreen Warriner maintains that private enterprise alone cannot ensure either a rise in living standards or economic stability given the hostility of the desert environment, and adds that an extension of the irrigated area is the only basis for agriculture. "If it wants to achieve this, the State must absolutely adopt an energetic and enterprising policy, for otherwise the countries of the Arab world will remain poor and unstable."[591]

Maurice Dobb goes much further than this when he claims that private enterprise in these countries has never been enterprising and the "quintessential" superiority of the planning mechanism is found at those decisive revolutionary crossroads of growth when the problem of interdependence emerges. To the extent that planning presupposes an enlargement of investment decisions, to the detriment of the atomistic decisions of the private investor, and takes into consideration those strategic relations of interdependence "it thus makes possible for the first time a co-ordination *ex ante* of the various constituent decisions in a complex strategy of development, instead of the tardy (and, as experience has taught us, highly imperfect) co-ordination *ex post* which the traditional market-system provides, or is presumed to do."[592]

The Changed Historical Sequence

The growth sequence of the nineteenth century will not be repeated—not merely because of technical criteria—but primarily because no poor

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590. Government of India, Planning Commission, *First Five Year Plan, 1952*, p. 9.

591. *Land Reform and Development in the Middle East: A Study of Egypt, Syria and Iraq*, Royal Institute of International Affairs, 1957.

592. Maurice Dubb, *Some Aspects of Economic Development*, Delhi School of Economics, 1951.

country dares politically contemplate another century of development comparable to the decades girded by the *Pax Britannica* which yielded such a harvest of catastrophe. The visible hand of the State rather than "the invisible hand" will determine the major contours of industrial development in the low income areas, for as is now generally realised, "the kind of development programme now needed for a better balanced world requires planning, whether or not we like that word, because it is not at all certain otherwise how the parts might *fit* together."[593]

Moreover, many of these countries not only have a colonial heritage of political subjection and enslavement to overcome, but they also have to approach the job of utilising the available economic knowledge not from the position of near leadership and at the end of a cumulative process of preceding growth carried on under conditions of political independence, but from that of long-distance laggards after a period in which internal economic organisation was hamstrung by political subjection.

The Western bourgeoisie or more pedantically "the entrepreneurial" class which liquidated the old order was the seedbed of constitutionalism which served their interests. As we have already seen it was no spontaneous creation, but rather the end-product of decades of slow imperceptible transitions that conditioned it morally, intellectually and scientifically to exploit the potentialities of those dramatic innovations that constituted the headwaters of the eighteenth century factory system.

The vast pseudo-scientific literature which purports to explain economic growth in terms of "entrepreneurial motivations" is one that is *à la mode* in American discussion. It is claimed that the reasons why the less developed areas have not been able to make the forward leap into sustained growth is due to the absence of a dynamic, risk-taking entrepreneurial agent embedded in the warp and woof of the competitive price mechanism. Indeed he is our modern Prometheus. It would not be worth our while to scrutinise the myth further as Baran has done, were it not for the viciousness of its practical implications.

It is true that an Arkwright, a Boulton, a Watt or any multitude of intrepid "entrepreneurs" that are paraded in the pages of Samuel Smiles's

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593. J.F. Williams, *Economic Stability in a Changing World: Essays in Economic Theory and Policy*, Oxford University Press, 1953, p. 38.

biographies were the outgrowth of those social forces that reached fruition between the sixteenth and eighteenth centuries. To claim that present-day Asian nations have not had an entrepreneurial class is tautologous. An "entrepreneurial" revolution is predicated upon an industrial revolution and indeed its inseparable shadow. There is a plethora of rapacious, risk-taking entrepreneurial sharks as a superficial visit to any underdeveloped country reveals; but this "entrepreneurial" potential remains encrusted within the confines of a feudal-comprador society which in turn is (or was until recently in many of them) overshadowed either by a dominant ex-colonial power or by a gigantic foreign export oriented corporation, which is at once the economic pacemaker and the political policeman. Hence given the structure of a backward country "entrepreneurial" ability can only be directed into land speculation, usury, import-export deals, small-scale trading and the informal sector.

In its origins, the argument is Schumpeterian; but what was originally a scientific attempt at comprehending growth phenomena, has become a part of the weaponry of market fundamentalists. It purports to explain how economic development begins and sustains its momentum once it reaches a certain level. In Schumpeter's model, real incomes emerge by a lowering of real-cost functions, i.e. by innovations on the supply side. Since capitalist growth is characterized by crests and troughs the prime thrust was the expansionist flow of inventions and innovations, constituting, as it were, "the perennial gale of creative destruction" — a metaphor by which Schumpeter so masterly described the sociology of capitalism.

Not merely is the theory utterly inapplicable in the less developed areas, but equally so in advanced capitalism where the dynamic "innovator" has lost his hallowed niche. If the "innovator" was a capitalist reality, he has ceased to be so. Oligopolistic capitalism and the intrepid innovator are mistrustful fellow-travellers.[594]

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594. "There is no more cherished view of the American than that which regards it as a biological process in which the old and the senile are continuously being replaced by the young and vigorous. It is pleasant but almost certainly a far fetched fiction. In fact the present generation of Americans, if it survives, will buy its steel, copper, brass, automobiles, tires, soap, shortening, breakfast food, bacon, cigarettes whiskey, cash registers and caskets from one of another of the handful of firms that now supply these staples. As a moment's reflection will establish, there hasn't been much change in the firms supplying these products for several decades." J. K. Galbraith, *American Capitalism*, op. cit., p. 39.

Techniques of capital formation are important in poor countries. A theory of historical development which assumes, for example, the existence of an entrepreneurial class to spark the process of growth has limited applicability. It is one thing to understand the past growth of an historically oriented free-enterprise economy; but quite another to initiate growth in a backward country that has not acquired a similar cultural format.

The capitalist acting on his own cannot seek indices relating to output and employment for the allocation of resources. The planners' guides may be considered as investment-output, investment-employment, income-consumption, producer goods versus consumer goods, domestic inputs and the now familiar domestic-foreign trade output ratios. How can these priorities be determined by the price mechanism? The choice is not between the total exclusion of the private sector or state enterprise. Up to a certain nodal point of development the two are not irreconcilable and until that point has been reached, compromise has its virtues; in this way the aggregate volume of investment will be conditioned by the relative size strength and scope of the public and private sectors and on the basis of the historical heritage, availability of capital and enterprise, monopolistic tendencies, technical complementarity of industries, ultimate economic targets, etc. for each field separately as well as in regard to their overall effect on the rate of growth itself.

The compromise approach leaves ample room for private investment and initiative. There is no ideal ratio of economic investment in the two sectors on which the success of planning could be said to hinge, although the determinant factor is the volume, rate and composition of public investment. The scale on which public investment is planned will inevitably place increasing demands on the private sector in terms of by-products, raw materials, etc. New vistas pioneered by public investments repercus on the private sector generated by income-expansion on the proviso that these public enterprises cease to be deficit undertakings.

Notwithstanding the controversy as to the nature and scope of public investments, the fact to be borne in mind is that complex and far-reaching decisions concerning the optimum and sectoral distribution of these investments must allow for the historical heritage. Planning ratios cannot be generalised. As Gershenkron puts it: "No past experience, however rich, and no historical research, however thorough, can save the living generation the creative tasks of finding their own answers and shaping their

own future." This observation is true even in those countries which have adopted the planning mechanisms and holds good even for countries as China, India, Indonesia and Burma. Eastern European experience is particularly revelatory in this respect. A mechanism is yet to be found which can be taken over integrally and adapted to a soil without necessitating fundamental changes.

From the time of Jevons, as Joan Robinson stressed , economists paid no attention to problems of growth; in exceptional cases, they left the static framework to investigate the business cycle, but viewed it as a reluctance of the economic system to return to equilibrium rather than as a characteristic of growth. When economists at last ventured on the field of development, their thoughts found expression in what were often political tracts. By and large, their concern was with positive and normative aspects of the allocation of scarce resources between alternative ends, rather than with the means by which scarce resources increased over time.

It is in this respect that we can appreciate her perception that "the orthodox marginalist school only distracted attention from the important questions by fussing over minor ones, and to this very day have failed to take note of the mutations in capitalism which makes their elegant logic inapplicable to reality." The reason for this is that the models of orthodox theory shirked the real issues, both practical and theoretical, which arise in countries where per capita income is stationary of falling or rising so slowly and from so low a level that there is little likelihood of growth becoming cumulative without a radical economic transformation. What is required is not stabilisation of the growth process, but new institutional stratagems of mass mobilisation that ensures that growth becomes cumulative at a certain point.

The fallacies of traditional orthodoxy lie in the fact that less developed regions present problems which appear to be more or less insoluble from the standpoint of the application of liberal economic theory formulated in the older core countries. Many of these problems were largely absent even in the grimmest days of the first industrial revolution. The basic job facing the periphery is one of mobilising and directing savings into productive investment at an accelerated tempo. Foreign loans or gifts can thus never be a substitute for indigenous capital formation. This inevitably raises the question as to the most effective institutional and social forms necessary to tap these resources.

The Push of Private Investment

It is a fairly widespread dogma of liberal thought that emphasis should be placed on private investment as the principal external source of long-term capital for economic development, and among many American propagandists the argument is repeated *ad nauseam* that the US government should place a very high premium on private investment. The ideological thrust is all too obvious. American negotiators continue to peddle this view in international conferences, and clauses supporting private international investment may be found in the articles of agreement of the International Monetary Fund and the World Bank, the conventional domestics of the US corporate gulag.

Although the State Department realised that private investments on their own could not perform the desired miracle, recourse was taken to loans and grants. In January 1949, Truman announced as Point Four of his inaugural address, a "bold new program" for making American economic aid available for the underdeveloped areas. However, in 1950—at the hearings enacting the *Act for Economic Development* (the congressional implementation of Point Four), a veritable legion of witnesses were summoned, that touted private capital as the major source of external finance for underdeveloped areas.[595]

A leading Cold War ideologist, Senator Knowland declared that the less developed areas should rely less on loans and grants and financial gifts. Charging that some beneficiaries of American aid had made no effort to attract private capital this most militant of congressional gulagites asserted that "if the economic and political climate is made encouraging,

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595. And other similar statements, such as Edward G. Miller, Assistant Secretary of Pan-American Affairs, that "the State Department is not disposed to favour large loans of public funds to countries not welcoming our private capital." *State Department Bulletin*, No. 22, 1950, p. 234; equally the recommendations of the Hoover Commission, *Overseas Economic Operations: A Report to Congress.*

A State Department economist recognised that "so powerful have the ideas of predatory private enterprise become that those who claim that foreign capital could contribute to the well being of the country dare not publicly favour private foreign investment lest they lose public influence." *State Department: Point Four, Economic Co-operation*, Series No. 24, Washington, 1950, pp. 64-5; also W.T. Bennet, "The Economic Structure of Pan-Americanism," *State Department Bulletin*, No. 27, 1952.

there is substantial private capital in the world" for investment in them.[596] An all too familiar gulagite peroration with a long and agonising history.

And Eisenhower has stated that the aim of American foreign policy was to do "whatever our Government can properly do to encourage the flow of private investment abroad; this involves as a serious and explicit purpose of our foreign policy, the encouragement of a hospitable climate for such investment in foreign countries."

Similarly, August Maffry, a top business executive and adviser to the State Department, calls for "total diplomacy" in boosting American foreign investment.[597] After urging that all US Government agencies should watchdog attempts to discriminate against American investments and "employ all possible diplomatic pressures to forestall or remedy" these practices he recommended other ways for implementing counter measures against intransigents. "There is still another and a very promising way in which the United States government can assist in achieving better conditions for investment in foreign countries. This is by aiding and abetting by all available means the efforts of private investors to obtain concessions from foreign countries." Once these concessions have been extorted by "combined private and official efforts in a particular case, the way is open to generalise them for the benefit of all other private investors." Such perceptions became the hand maiden of US State terrorism and the gulag's liquidationist practices.

Other reports submitted to the US Government underscored the role of private capital as the keystone in US foreign economic policy in the fifties. This includes the *Gray Report* in 1950, the *Rockefeller Report* in 1951

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596. *New York Times*, 17 January 1956.

597. *Program for Increasing Private Investment in Foreign Countries*, New York, 1952, pp. 10-12. This observation is revealing, but it does not tell us anything new. *Cf.* the perceptive comments of Berle of Columbia University, Secretary of State from 1938-1944 and former American Ambassador to Brazil. "Though corporate practice is far from uniform, it would seem that most American corporations prefer to deal directly rather than through American embassies or diplomatic officials, though the diplomats can be of help under some circumstances. Some of the larger corporations have continuous and careful reports made to them on the attitudes and aptitudes of the American diplomatic officials, rating them according to their probable usefulness in advancing or protecting the company's interest." *The Twentieth Century Capitalist Revolution*, New York, 1954, pp. 131-2.

and the *Bell Report* in 1950; while the *Mutual Security Act* of 1951 suggested that a study be made of obstacles to United States' private investment abroad and of ways in which these obstacles might be overcome. Then came the *Paley Report* in 1952, the *Report of the Advisory Committee on Underdeveloped Areas to the Director for Mutual Security* in May 1953 (Economic Strength of the Free World), the *Randall Report* in January 1954 and the *Report of the Citizens' Advisory Committee on Economic Development.* The catalogue is far from exhaustive, but the leitmotif is the stress on the private investor as the dynamic force behind growth.

Similarly, all US administrations have dogmatically advocated the necessity of private foreign investment. Consular representatives have been ordered by the State Department to ferret out investment opportunities for American capitalists.

Harold Stassen, former Director for Mutual Security, said that one of the "axioms" of United States foreign economic policy was that "in furtherance of a high level of international trade no policy is of greater importance than the encouragement of sound private United States investment in those areas of the free world where it is most needed."[598] Note well that *"The Free World"* whose usage was widely generalized in the early fifties is synonymous with US dominated foreign investment. In much the same manner the Chairman of the International Development Advisory Board which set up under the *Act for Economic Development,* claimed in connection with the economic implications of the Point Four programme that "private enterprise is the very essence of Point Four," his implicit assumption being that US corporate penetration and hegemony is a necessary pre-condition for successful economic development in a backward area.

Before stating the case against private investment and its inadequacies as a growth catalyst, it is mandatory to understand the corporate investor's viewpoint on matters of international lending and the obstacles to international capital movements.

1. One of the ways in which economic growth of the less developed might be stimulated, and one that has received noticeable attention, is

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598. "The Case for Private Investment Abroad," *Foreign Affairs,* April 1954.

through the inflow of capital to develop supplies of raw materials. This has grown out of an increasing awareness, particularly in the US, as the *Paley Report* so frenziedly underlined, because the leading capitalist nations will be faced with rising supply costs in many important lines unless alternative cheap sources are developed. This view is reinforced by prolonged discussion of the need of the underdeveloped for an inflow of foreign capital if their growth is to proceed apace; and that raw material production is the area in which private capital has been most readily interested in the past, and in which it remains interested given a politically hospitable investment climate.

2. Private investment, it is believed, increases foreign exchange reserves of the recipient country both directly and indirectly.

- Exchange control for the purpose of avoiding balance of payments crises is therefore superfluous.
- Private capital inflow will make it unnecessary to give priority to schemes with a small ratio of foreign exchange requirements. If a government cannot raise foreign exchange it may have to give low priority to some very productive projects and higher priority to others which are less productive but require less foreign exchange; this is undesirable. It may also have to give priority to some projects which earn foreign exchange but which do not increase the national income as much as other projects earning less foreign exchange.
- Hence, if development programmes are not to be inflationary, it would be advisable for those areas taken over by the public sector to be left to the private sector. This affords the latter the possibility of widening its investment field. In short, dismantling the public sector.
- Given the fact that in less developed countries domestic savings flow into highly productive investments yielding two or three times the rate of interest at which their governments are able to borrow, the amount of investment and the quantity of capital available will be limited, and their demands for loans will raise interest rates even higher than they would otherwise be. Borrowing in advanced financial markets reduces costs, permits larger investment outlays and acts as a brake on rises in domestic interest rates.
- Private direct and portfolio indirect investment becomes a means of enabling the underdeveloped to supplement indigenous capital

formation during the critical phases of development thereby accelerating economic growth.

3. An important derivative of private investment is that it brings in its wake managerial and technical skills, since the less developed are afflicted with a deficit of administrative, technical, and entrepreneurial ability; productive investment is severely circumscribed by absence or inadequacy of basic facilities. Trained personnel are lacking. Since capital is scarce, however, the more capital that enters basic facilities the less there is for productive investments. In this respect foreign and domestic capital are complementary. A low level of capital formation does not yield much, because so much of its goes into basic facilities; but the greater the investment the greater the yield, because an increasing proportion of total investment is directly productive. The private capitalist, by contributing to an enlargement of the investment field, increases the effectiveness of domestic capital allocation.

4. It is claimed that transfers of foreign investment capital are not exploitatory, since in the absence of foreign capital there would be no economic development. In addition, foreign investment lifts aggregate income of the borrowing country.[599] Gains to the latter fall into two categories:

- the earnings of those workers who find employment in the newly established industry;
- the tax revenue which the state secures.

If industry were financed with domestic capital there would be another category, i.e. profits. Even if these profits were repatriated there is no reason why the other two could not be catalysts to the borrowing country.

Now that private capital is available, the State is in a position to divert its resources to build up external economies. Undertaken largely with domestic resources, they provide a source of enhanced effective demand. Moreover, capital earned by the borrowing country can be canalised into creative entrepreneurial channels by setting up industrial and agricultural banks that will loan these resources to persons prepared to embark on desirable investment projects.

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599. S. Herbert Frankel, *The Economic Impact on Underdeveloped Societies*, Oxford University Press, 1953, p. 104.

5. Private investment in raw materials possess the positive advantage that in general it enters a virgin field. Moreover, as in the case of the petroleum industry, the original capital comes from abroad and the product is sold abroad — and thus the exploitation and marketing of this commodity contributes to national growth. It also supplied an important source of foreign exchange which can also be allocated to raise industrialisation. Total receipts will be in a foreign currency and to the extent that costs consist of local expenditures these will be available to the receiving country. A steady income flow thus provides those goods required for the growth of the internal market. Stimulation may also be forthcoming from the supply side. The new mineral project therefore represents production of a raw material which can be utilised more cheaply on the domestic market and which can be processed locally.

6. Unfettered private investment serves as a means of equalising international factor prices, and thus serves, according to the doctrine of comparative costs and specialisation, to maximise world income.

Obstacles to Capital Outflow

Although private capital investment is indubitably capable of playing a developmental role, there is evidence that the scope of its activities has been curtailed and that the scope of corporate capital which has been its corollary is not a sufficient force to initiate balanced development. Jacob Viner suggests that it would be easy to extend the list of reasons why it is unrealistic for the underdeveloped to place major reliance on foreign capital. Capital no doubt will enter but the bulk of it will be speculative and short-term. Foreign capital will make but a marginal contribution to the productive capital needs of underdeveloped countries[600]

As we have previously seen, capital issues in the world financial centres greatly decreased after 1929. Foreign governments are no longer in a position to secure loans on any significant scale in this manner, either because of American legislation, or the reaction on the part of the less developed countries to these loans.

The waves of expropriation have been both ubiquitous and increasingly extensive. Not even the Latin American countries have escaped this

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600. *International Trade and Economic Development*, op. cit., p. 110.

nationalisation and outright expropriation. Moreover, even in the older industrialised areas of western Europe, the scope of the public sector has grown since liberation in 1944.

Even where such action has not been taken against the private investor, difficulties of foreign exchange for transferring profits or repatriating capital remains a considerable obstacle. Policy of outright nationalisation in many of the underdeveloped countries and enlargement of the public sector are inhibitors to the private investor. In every case, however, nationalisation has been correlated to other paraphernalia of interventionism, although many of the direct impediments to foreign investments are symptoms of underlying economic conditions rather than simply the expression of a policy hostile to foreign capital as such.

In many cases this has been due to internal revolutionary forces which the foreign investor and his military backers could not stem. "The unfortunate but inescapable fact is that the ominous result of the civil war in China was beyond the control of the government of the United States," whines the *Acheson Report*. "Nothing that this country did or could have done . . . could have changed the result; nothing that was left undone by this country has contributed to it." And with the wisdom culled from billions of dollars spent on behalf of sustaining its Asian gulag, the Kuomintang, it concluded: "It was the product of internal Chinese forces, forces which this country tried to influence but could not."[601]

Although the removal of political obstacles of this type may perhaps stimulate the inflow of private capital, it should be remembered that these impediments of a monetary nature are by-products of other actions necessitated by developments outside the country's control.

And it is still largely true that conditions in the American investment market since the sixties are favourable not only for Americans, but equally for the middle eastern potentates, the Japanese and the world's big savers.[602]

One of the characteristics of international investments in the inter-war period was the abrupt stoppage of the investment flow after 1930 and its

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601. United States Department of State, *United States Relations with China*, Washington, D.C. 1949, p. xvi.

602. *op. cit.*, J.F. Williams.

tendency to flourish in prosperity and wither in depression, particularly when it was most needed by debtor countries. Another is the annual pillage which foreign investment imposes on the economy in the form of interests, dividends and profits.

Is there a limit to such repayment which a country can afford?

The consequence of both the abrupt cessation of foreign investment and the crippling burdens of debt repayment during the depression years and in the post-war period has been the mushrooming of various quantitative restrictions on international trade and payments in order to preserve short-term exchange equilibrium.

Even if, as a result of a progressive improvement in international payments positions, (that is a relaxation of current account transactions occurs from the restrictive application of exchange and direct trade controls to restore convertibility over a large part of the world) it is highly probable that a majority of countries would still need or would want to maintain some measure of exchange control over private capital movements.

Bloomfield notes that "it may legitimately be questioned whether it will indeed be technically feasible to maintain and operate an exchange control system which applies restrictively to capital movements but permits complete freedom with regard to the making of payments and transfers on current account, i.e. a system which, while involving the licensing off all exchange transactions, makes effective the controls of capital movements and permits current account payments to take place freely".[603]

Since the thirties, short-term capital movements have almost completely abandoned their old role of contributing towards equilibrium and stability. Trends suggest that both speculative and flight movements in the post-war period have been primarily of the disequilibrating variety.

Furthermore, since the twenties, capital import regulation has varied widely both in scope and in the flexibility with which it is administered. The watershed between government control over foreign investment and those over various types of private business operations is blurred. Three broad types of control over new investments may be distinguished:

- Specific authorisation of each new investment, which is frequently related to the administration of exchange control.

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603. A. Bloomfield, *Speculative and Flight Movements of Capital in Post-War International Finance*, Princeton University Press, 1954, p. 86.

- Limitation of the extent of foreign financial participation or managerial control.
- Restriction on foreign participation in specific branches of activity, such as mining and public utilities.

In several of the less developed areas many of the extractive industries have been withdrawn from the field of the private investor, and hence policies adopted by many of these national governments have a direct bearing on international investment flows. The case of the petroleum industry is interesting since many countries have taken active measures tending to exclude private capital (domestic and foreign) from sharing in the development of their petroleum resources. The exclusion of American-owned sugar plantations in Cuba and their expropriation is a glaring reminder.

In the pre-war period, the public utilities sector, including power, transport and communications, was the dominant outlet for direct private investment. In the periphery, in particular, post-war investment expansion in this field has largely been undertaken by public agencies. Foreign capital flowing into this sector has likewise been supplied by government institutions employing public funds or funds borrowed from the IBRD or IMF.

Private Investment: The Singer-Myint Critique[604]

The *Paley Report*, in a criticism of diversification and balanced growth, declared that "the habit of regarding diversified economic growth as an alternative to materials development is erroneous,"[605] and urges the less developed areas to welcome foreign investments as the latter constitute a stimulus for further growth. To appreciate the sophistry of this argument it would be worthwhile to examine the structure of dependency and the sectoral distributive pattern of overseas private investment.

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604. See H.W. Singer, "Distribution of Gains Between Investing and Borrowing Countries," *Papers and Proceedings of the American Economic Association*, May 1950; H. Myint, "An Interpretation of Economic Backwardness," *Oxford Economic Papers* (New Series), Vol. 6, June 1954.

605. *Resources for Freedom, Foundations for Growth and Security. A Report to the President by the President's Materials Policy Commission*, 1952, Vol. 1, p. 173.

The Export Sector. One of the most commonly encountered features of underdevelopment is the existence of a relatively small and highly developed monetary sector (organised around foreign enterprise and geared towards the export market) in the centre of a much larger technically primitive economy, that remains relatively untouched by the monetary sector.

A great discrepancy exists in labour productivity in the underdeveloped areas between industries and occupations catering for exports and those catering for domestic production. Whereas the former are characterised by advanced technology the latter are often technically primitive. The inherent weakness of the classical theory of comparative costs is here most glaring. Metzler suggests that "since Latin American countries in many instances provide a substantial proportion of the world's supply of such goods (foodstuffs and raw materials), it seems likely that the external demand for their exports as a whole may be quite inelastic even over a considerable period of time."[606]

As far as economic growth is concerned the selection of different types and qualities of natural resources by the price mechanism contrasts dramatically with its lack of selectivity with regards to human resources. This results in what Myint calls the fossilisation of the so-called backward peoples in the conventional roles of undifferentiated cheap labour and unspecialised peasant producers.

Referring to Bolivia, the United Nations Technical Mission to that country observed this anomaly when it declared in its report (1951) that "this new trading economy remained divorced to an extraordinary degree from the rest of the country," with 80% of the population continuing to earn their subsistence in feudally organised agriculture, untouched by the intrusion of the mining companies which were foreign owned.[607]

Much the same phenomenon could still be said of the Venezuelan economy. Were it not for government revenues received, the petroleum operations could more properly be considered a part of the economy in

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606. "Tariffs, the Terms of Trade and the Distribution of National Income," *Journal of Political Economy*, February 1949.

607. *United Nations Mission of Technical Assistance to Bolivia.* Report. Doc. ST/TAA/K/Bolivia/1, 11 October 1951.

which the investing companies are domiciled than that of Venezuela itself.

In the Indian case-history, we saw the extent to which the economy at large remained unaffected by foreign investment. In Asia and Africa, the split between the two sectors — the capital-intensive sector and the labour-intensive sector — is equally manifest. The typical unskilled labour supplied is an undifferentiated mass which might be used on any type of plantation or in any type of extractive industry within the tropics and sometimes even beyond it, as is the case with Indian labour in Southeast Asia and the Caribbean.

The Dual Structure. Expatriate enclaves whether they be mines or plantations, are often highly capital-intensive supported by a great deal of imported foreign technology. By contrast, production for domestic consumption is often of a subsistence nature. The dual structure is characterised by widely divergent productivities: a high productivity export sector and a low productivity domestic sector.

The *Paley Report* is not oblivious to this dualism. Rather, its authors have seized upon it in a theoretically plausible manner by arguing that concentration by the private capitalist on the capital-intensive export sector is beneficial in the sense that it exerts a multiplier effect in raising their general standards of productivity, shifting their economies in the direction of a monetary exchange economy, diffusing technical know-how of more-capital intensive methods for the *internal* domestic markets. This thesis is erroneous.

The most crucial manifestation of lack of integration is that expenditures aside from tax payments, tend to be limited to a small percentage of the aggregate output value.[608] Capital-intensive mining operations tend to be less so than other lines, since in the absence of basic industries capital

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608. The multiplier effect of foreign investment has extremely weak spread effects - if any. The majority of workers in foreign-owned enterprises, producing for foreign export markets, belong to low income groups, although it is true that their real income is higher than in indigenous forms of employment of a handicraft nature. Their wages go largely to the purchase of foreign consumer goods. It is far cheaper to import these articles from abroad than attempt to purchase them or substitute for them by local sources. In Bolivia, the tin mining corporations constructed and supplied their own stores with imported merchandise. T. Rollins, "Mineral Development and Economic Growth," *Social Research*, October 1956.

equipment is purchased abroad. Together with transport costs (which again tend to be paid either to the government or to a foreign concern) these account for the bulk of costs. In the case of Guatemala and the United Fruit Company, we witness the alien gulag in the national economy controlling also the means of transport — road and rail.

Data of the Venezuelan central bank showed that local expenditures by the petroleum companies did not exceed 10% of the value of exports; 90% of this outlay went to meet wages and salary payments, the remainder being used for purchases within the neo-colony. For Rhodesia from one-fourth to one-third of total mining receipts have gone towards wage payments in the northern mines.

Analysing Rhodesia's distributive pattern of this investment, Leonard Barnes noted that the output of copper, the main product of the colony (now Zimbabwe), all of which was marketed outside the region, was worth some £12 million in 1937. Of this, some £5 million went in dividends to shareholders (all white non-residents), while half a million was paid as royalties to the British South Africa Company. The £244,000 wages for 17,000 African workers was equivalent to an average of £14.7s a year, or 5s. 6d. a week for each of them. This is the crux of imperialism; the Dracula visage of the gulag.

TABLE 23. *Northen Rhodesia Copper Industry in 1937*
(Income and Expenditure Account)
(£ 000)

				%
By copper exported	£12,000	To dividends	£5,000	41.7
		To royalties	500	4.2
		To income-tax	700	5.8
		To salaries of 1,690 Europeans	800	6.7
		To wages of 17,000 Africans	244	2.0
		Balance (other costs of operations; maintenance, stores freight, insurance, etc.)	4,756	39.6
	12,000		12,000	100.0

Source: L. Barnes, *Empire and Democracy*, London, 1939.

"Of the above figures," notes Barnes, "the £12 million appear in the Customs returns, and may be taken, if you like, as an index of the 'economic development of Northern Rhodesia.' But to speak as though copper mining had made that sum available for increasing the social welfare of Africans in the colony shows either too much ingenuousness or too little.[609] African consuming power is directly raised only by what is paid in miner's wages and by European salaries which is spent on hiring domestic servants—say, £350,000 in all."

"Even when indirect benefits to Africans are taken into account, their gross gain can hardly be put higher than £1 million. And in order to arrive at a net figure expressive of welfare economics, we have to set against the gross figure

- whatever is injurious in the impact of the new economic order on the minds and bodies of the African tribes people, and
- any net diminution of the food supply of Africans that may be occasioned by the diversion of tribal man-power from agriculture to mining."

Barnes drew the conclusions:

> "This account of the copper situation gives the typical pattern of our behaviour, wherever mineral production is concerned. Broadly, we appropriate the natural resources, develop them in our own ways and for our own purposes (ways and purpose which wholly ignore the pre-existing structure and function of African society), and of the wealth so produced we carry out of the country £11 for every £1 we leave behind."

A caveat is necessary: it is not "our behaviour," but the corporate "behaviour" of the leading lights of imperialism.

The consumption multiplier is a function of ownership and opportunity costs. The main secondary multiplier effects of this corporate investment does not take place where the investment results in the cumulative additions to income, employment, capital, technical knowledge and growth of external economies; rather, a good deal of the investment in the periphery which we considered as "foreign" is in fact domestic investment by mega corporations in core countries.

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609. *Empire and Democracy: A Study of the Colonial Question*, London, 1939, p. 153.

Singer's analysis is particularly fruitful at this juncture and has something in common with the refinements of the younger Mill. The latter had argued, on the basis of factor price equalisation, that colonies can hardly be looked upon as countries carrying on an exchange of commodities with other countries, but more property as outlying outposts of the metropolitan economy.

> "Even if Manchester were a rock in the North Sea, asserted Mill, it would still be a town of England where that country found it necessary to carry on its textile cotton production. Likewise, in the case of the British West Indies, English capitalists found it appropriate to use these islands as producers of sugar, coffee, and other tropical commodities, and there is little production of anything else except the staple commodities and these are sent to England, not to be exchanged for things exported to the colony and consumed by its inhabitants, but to be sold in England for the benefit of the proprietors there. *The trade with the West Indies is therefore hardly to be considered as external trade, but more resembles the traffic between town and country, and is amenable to the principles of the home trade."*

Substituting "external trade" in Mill's sentence for "external investment," we find that Mill's seminal idea of the relationship between core and periphery and Singer's concept are identical.

But the essential shortcoming in Mill's formulation lies not merely in the co-existence of widely divergent productivity sectors but also in the fact that specialisation and distribution of gains which accompany it is not a fixed geographical attribute but one determined and "fossilised" by foreign investment capital, reinforced by the repressive apparatus of the Gulag Occupant.

Wage Payments as a Multiplier. The major item of local expenditure is wage payments, and in a quasi-colony it is unlikely that these will generate a source of potential capital expansion. Wage payments are slated largely for the purchase of wage goods. In a country where living standards are stagnant the rate of savings is not large; moreover, the incomes of the foreign managerial class, technicians and engineers normally accompany the investment. Incomes are not paid in the domestic currency, and thus the savings from this higher income bracket do not remain in the periphery. Savings result largely from profits, and hence the

fact that these go abroad means that an important source of potential saving is liquidated.

The extent to which the labour force of the periphery benefits from foreign investment in terms of skills which can be transferred to other types of industry is mythical. The United Fruit Company is one legendary example. The bulk of the local labour force is cheap undifferentiated unskilled labour, and it is doubtful whether most of such acquired skills are readily transferable to other types of industrial development. We have seen the record of the labour force in the Indian Railways. Events in Iran subsequent to the nationalisation of the Abadan refinery focused attention on this fact.

It has also been claimed that the labour discipline of a large foreign-owned export oriented enterprise is a crucial catalyst in the diffusion of new work habits, and discipline making the workers significantly more suitable for other unskilled industrial work. Precisely the same argument was advanced in defence of slavery in North America. But here again it must be recognised that the proportion of the labour force is likely to be very small both absolutely and in relation to the total population. In Venezuela 3%, and Iran and Iraq 4%, of the labour force are in the petroleum industry, in Bolivia about 5% are in tin mines, in Chile less than 1% is in the large copper mines and in Malaya about 2% are in the tin mines. In certain countries, with small populations and large development projects, the percentage is higher.

The Supply Side. Borrowing imposes an annual drain on the debtor country, in terms of debt servicing, compound interest and repayment. It is obvious that in developing countries, the capital invested should exceed remittances. A time might come when this is unnecessary, since with the rise of national income a higher savings coefficient could support the remittances without requiring new capital inflow to cover the amount of such remittances.

The figures for Latin America are symptomatic, and the same can be said for Canada. Remittances from the colonies — i.e. the so-called "drain" in India — have already been examined. These were not exceptions. Rippy's researches show that profits gained by British companies in the Empire were fabulous. "Of the more than 120 companies . . . whose

dividend records have been presented in the various tables, only 10 failed to make average annual returns of more than 10% over periods of from one to several decades on the face value of their ordinary shares, and only 17 failed during their most prosperous five years to pay aggregate dividends at least equivalent to their capital; 70 companies made aggregate payments during their most flourishing half-decade amounting to more than twice their capital, . . . and more than a fourth of the group recouped their entire capital in a single year or less; the returns for 1945-1950 suggest that the years of lush dividends have not vanished."[610]

The findings of Hazlewood validate these conclusions.[611] In blunter language, the conservative W. Arthur Lewis declares: "Britain talks of colonial development, but on the contrary, it is African and Malayan peasants who are putting capital into Britain. For the first time since free trade was adopted . . . the British colonial system has become a major means of economic exploitation."[612] Indeed, it always was.

A comparison of the dividends paid by Dutch corporations (Group 1) operating principally in the Netherlands with those paid by other Dutch companies (Group 2) operating through subsidiaries in the Netherlands East Indies is equally dramatic. (See Table 23)

Schiff demonstrated that a rise in raw material export prices does not result in an increase in disposable income for development, since remittances are larger. As a consequence of a rise in export prices, and thereby in gross and net business profits, additional gains are pumped out of the country. An intensified demand for the country's exports, secures the funds to pay for the additional goods or services equivalent to the total additional quantity of goods bought there. Both in the long and short run this is exploitation via the international price mechanism. By its very nature it is self-perpetuating.

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610. J.F. Rippy, "Background for Point Four: Samples of Profitable British Investments in the Underdeveloped Countries," *Journal of Business of the University of Chicago*, April 1953.

611. "Colonial External Finance since the War," *Review of Economic Studies*, December 1953.

612. "The Colonies and Sterling," *Financial Times*, 16 January 1957.

TABLE 23.

YEAR	DOMESTIC DIVIDENDS OF GROUP 1 (%)	COLONIAL DIVIDENDS OF GROUP 2 (%)	DOMESTIC = 100
1922	4.8	10.0	208
1923	4.2	15.7	374
1924	4.5	22.5	500
1925	5.0	27.1	542
1926	5.2	25.3	487
1927	5.6	24.8	443
1928	5.6	22.2	396
1929	5.4	16.3	302
1930	4.9	7.1	145
1931	2.2	3.0	136
1932	2.1	2.5	119
1933	2.2	2.7	123
1934	2.1	3.3	157
1935	2.0	3.9	195
1936	3.3	6.7	203
1937	4.5	10.3	229

Source: J. Dalmuder and J. Tinbergen, *De Nederlandsche Konjunktuur*, August 1939, quoted in E. Schiff, "Direct Investment, Terms of Trade, and Balance of Payments," *Quarterly Journal of Economics*, February 1942.

It is for these reasons that United Nations economist, noted that many of the underdeveloped countries fear a take-over of certain important segments of their national economies.[613]

It may be argued that foreign investment of the traditional type which sought repayment in the direct stimulation of exports of primary commodities to the investing countries has not only had its beneficial cumulative effects in the investing country, but that the inhabitants in the latter,

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613. *Measures for the Economic Development of Underdeveloped Countries* New York, 1951, p. 255.

as consumers, also enjoyed the fruits of technical progress in the production of manufactured commodities thus stimulated. The advanced capitalist countries have had the best of both worlds: as consumers of raw materials and as producers of cheap manufactured goods.

The Foreign Investment Image

Such exploitative trends are equally seen in a high per capita income country as Canada. Parizeau's researches[614] and the *Royal Commission Report on Canadian Economic Prospects* have indicated the depth of the American foreign investment breakthroughs in certain strategic sectors of the Canadian economy.

Foreign control has soared from 1% in 1926 to 28% in 1953. The aggregate totals cover conflicting trends since foreign control of Canadian railways have always been insignificant.

What, however, is significant is the intensified foreign control over the nation's petroleum and extractive industries. Canadian enterprises owned in 1953 an estimated 41% of the total capital in the extractive industries, excluding petroleum, and controlled 45%. American investments controlled 53% at that date and this percentage has risen since the Dominion Bureau statisticians published their celebrated survey.

What are the implications of this unceasing flow of American investment, not merely in terms of political sovereignty, for Canada's future industrial growth? Parliamentary debates and academic controversy has focused attention on the consequences of this intensified control over exhaustible Canadian natural resources — petroleum deposits, iron ore, certain non-ferrous metals, pulp and paper, natural gas, which are being produced in function of American requirements. The oft-repeated allegation of the *Paley Report* and State Department officialdom that foreign investment in resource development constitutes a launching pad for the take-off is categorically vitiated by the Canadian case-history. Moreover,

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614. "Les investissements americains sont-ils devenus une ménace," *L'actualité économique*, April-June 1956. Warning against the continuous inroads of American capital the governor of the Bank of Canada, J.E. Coyne, stated that reliance on foreign capital "has given rise to huge deficits in our international balance of payments, to a large and growing volume of foreign debt by governments and businesses which do not have foreign operations to support that debt, and has gone hand in hand with a growing degree of foreign predominance in Canadian business."

(given the fact that investments are made by huge corporations) were such investment to migrate into manufacturing industry it would be in a position to control the level of scientific research in those enterprises — a factor of crucial importance for growth and employment.

American foreign ownership also implies that sale of strategic resources is limited to the American market instead of seeking a diversified world market.

American recessionary tendencies showed the reluctance of American-owned subsidiaries to re-direct Canadian exports to non-American markets. Moreover, many of these American-owned subsidiaries exercise a powerful and deleterious impact on Canadian economic policy, i. e. trade with Cuba.

On a long-term basis, and this charge is more replete with disastrous consequences, foreign control of these strategic resources are brakes to the establishment of native Canadian manufacturing plant. Prudently, the *Gordon Report* does not infer that these American-owned subsidiaries should be nationalised, but suggests that, (given the corporate enthusiasms of its authors) greater control of Canadian industry should fall within the ambit of native interests. However, despite the warnings of the *Gordon Report* further continuous breakthroughs of American equity capital into Canada's strategic resources are in evidence. It continues to remain a neo-colony.

Dominating the American foreign investment scene is the petroleum industry, with its fabulous dividends, quasi-controlled by the Seven Sister's "Free enterprise" has no place in this scheme of things. These lush investment pickings were not limited uniquely to Latin America, but equally embraced western Europe, notably in oil distribution and refinery operations. Extension of the tentacles of the American petroleum colossus has been accompanied by the ousting of its foreign competitors.

The illusion that American foreign investment is a development booster is belied by data. Increasingly fabulous monopolistic super-profits reaped by the Seven Sisters continue to exacerbate the indebtedness of the receiving countries.

What is true of past and present American foreign investment trends holds equally true for British and other foreign investments who have proved their chronic inability to harmonise their policies and profit

motivations to the planned industrialisation drives of the underdeveloped regions. Moreover, the rosy rhetorical claims of foreign investors must also be seen against the political backdrop. Systematic smear campaigns of the petroleum giant's at the nationalisation measures of the oil industries in Brazil and Argentina, and the categorical refusal of the American Government to sanction loans to these industries due to their nationalised status is an awesome reminder that their national plans can never be tailored to the requirements of these gulagite corporations. Revelatory was the abrupt cessation of American "aid" to "in the interests of hemispheric solidarity" because it had the temerity of socializing the United Fruit banana plantation and insurance companies, banks, casinos, big time bordellos and petroleum refining. This is so because the emergent national state desirous of rapidly removing the obstacles to economic growth via the enlargement of the public sector will inevitably find its policies countered and sabotaged by the corporate gulag galvanized by military intervention. Cogent in this respect is the virulent co-ordinated offensive by the Seven Sisters against an extension of the Indian public sector in petroleum operations and distribution. The very rapacity of these attacks bears testimony to the predilections of these mega investors and once again reveals that their sole energising dynamic is profits; and not the urge, despite their sanctimonious nostrums to the contrary, to pull these countries out of the hell hole of underdevelopment.

Critique

As we have seen, liberal theologians have always pointed out to the pre-1914 international galaxy as the ideal in foreign investment trafficking.[615]

Admittedly, foreign investments and more particularly British investments, played a minor role in North American development. But generalisation is hazardous beyond this well-known case. What were, the cumulative effects of international investments on the ryot in Bengal and Bihar, on the Chinese peasant in the Yangtze valley, on the subsitence African, the Andean Indian, the Middle Eastern fellah, the Cuban landless labourer?

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615. M. Buchel-Schallgruber, *Les Tendances dans le Domaine des Investissements Internationaux depuis* 1945, Geneva, 1955, p. 8. A vulgar compendium of liberal fatwas.

1. Did they contribute to increase his per capita income?

2. Could one rationally speak of a "harmony of interests" between the 6% debenture holders in the City and the interests of the multitude of black, brown and yellow men?

3. Did these direct investments revolutionise society or transform the feudal or semi-feudal social relations in which they lived?

Examining another aspect of global investment, Gunnar Myrdal pointed out that international investment made no fundamental contribution to the overall balanced growth of those regions which it penetrated. Referring to Indonesia, he reaches much the same conclusions as Furnival. Here was a vast country with bounteous resources, yet in the era of Dutch colonial rape it had to import literally every nail, in addition to such bulky commodities as coal and cement, for which half the import price was freight.

An inexorable corollary of the colonial and foreign investment pattern is that it was accompanied by strict racial and cultural alienation, that inhibited cultural adaptation and economic growth. Underlining the vicious implications of this, Bonn wrote:

> A rubber planter's home in Malaya is not going to be their children's home; if they own it, they mean to sell it as soon as they have made enough money; if they manage it, they hand over their job to a successor as soon as they can retire . . . . Even the sexual relations between planters and native women which are customary in some regions do not make for permanency; the white fathers abandon their mixed brood when they return home, and the only durable sediment deposited by the alien current flowing un-intermittently over the native lands is a thin layer of Eurasians.[616]

These words were written in 1938. Two months after the Japanese dagger was plunged into South-East Asia, *The Times* correspondent in Singapore wrote his famous despatch: "*After nearly 120 years of British rule, the vast majority of Asiatics were not sufficiently interested in this rule to take any steps to ensure its continuance. And if it is true that the Government had no share in the life of the people, it is equally true that the few thousand British*

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616. Marcus Born. *The Crumbling of Empire*, London, 1938, p. 332.

residents who made their living out of the country — practically none of whom looked upon Malaya as being their home — were completely out of touch with the people . . . . British rule and culture and the small British community formed no more than a thin and brittle veneer."[617] Another aspect of the problem relevant to the absence of integration was that the Marshallian economies which should normally accompany nation-building investment projects were singularly absent from any of the under developed countries.

"The petroleum industry," observed Dr. Mossadeq at the time of the Abadan crisis, "has contributed practically nothing to the well-being of the people or the technical progress of industrial development of my country. The evidence for that statement is that, after fifty years of exploitation by a foreign company, we still do not have enough Iranian technicians and must call in foreign experts . . . The Iranian government is determined to use this vital resource, which is part of its national patrimony, to raise its standard of living . . . ."[618]

Examining the *political aspects* of imperialism in Iran before the Security Council, Dr. Mossadeq charged:

> It went without saying that as long as a company such as the former Anglo-Iranian Oil Company had a monopoly over this source of wealth, the government and people of Iran could not enjoy political independence. Despite its business facade, this company is to be considered as the modern counterpart of the old East India Company, which in a short period, extended its control over India. The former Anglo-Iranian Oil Company had an annual income exceeding that of the government; the same was true of its imports and exports; it intervened actively in the internal affairs of the country, and threw its weight about in elections to the Majlis and the formation of cabinets, acting in a manner calculated to wring the greatest profits from resources under its control. By a complex organisational network within the country, by corruption of government ministries, and the illegal support to native journalists and politicians, it had in

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617. *The Times*, 18 February 1942.

618. Quoted in L.P. Elwell-Sutton, *Persian Oil: A Study in Power Politics*, London, 1955, p. 261.

> fact, created a State within a State, and little by little sapped the independence of the Iranian nation.[619]

American economist Eugene Staley, declared in much the same manner as the Iranian statesman that "in its years of operation in Iran it (the AIC) had little impact on the day-to-day economic life of the great bulk of the Iranian people, who continued to eke out a scanty subsistence by a primitive agriculture under a system of near serfdom." He adds: "the Arabian-American Oil Company in Saudi Arabia is another instance."[620]

Referring to Costa Rica's foreign investment experience, the Republic's delegate to the UN General Assembly, cited the case of the establishment of a tyre factory. His country, he asserted, was divided into occupied and unoccupied zones, and on the pretext of meeting competition, the company kept wages low. "The economic occupation," he continued, "was accompanied by the usual signs of occupation, such as racial discrimination, creation of private residential zones and posting of notices in a foreign language which had undesirable psychological effects. That was a good illustration of the kind of investment that should be avoided. Some people would argue that kind of investment was also a source of dollars and hence good for the country. Military occupation would also constitute a source of income, but no one would dream of regarding it as a rational method of economic development."[621]

In the same debate the Guatemalan delegate contended that "despite all the steps taken in Guatemala to gain capitalists' confidence, they usually re-exported their profits and capital, and were not concerned with the

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619. *Procès-verboux officiels du Conseil de Securité, 1560e séance,* 15 October 1951. (Unofficial translation)

620. *The Future of Underdeveloped Countries: Political Implications of Economic Development,* New York, 1954, p. 288. Also the testimony of Henry F. Grady, American Ambassador to Iran, in *U.S. News* and *World Report* entitled "The Real Story of Iran; an Interview with Henry F. Grady." His insights into what he calls "British colonialism" in Iran are worth reading. *Cf.* "Tension in the Middle East with Particular Reference to Iran," *Proceedings of the Academy of Political Science,* January 1952. The British were ousted and thanks to the CIA the American gulag took its place.

621. United Nations, General Assembly, *Seventh Session, Second Committee, 215th Meeting.*

promotion of the country's economic development."[622] This was one year before the Arbenz reforms were knifed.

Equally instructive is Bolivia whose tin mines are the main source of its national wealth. The abuses which corporate investment engendered were largely responsible for the events leading up to 1952. Profits of the tin mines were not reinvested in productive enterprise, but exported to the world's capital markets and spent on non-essential luxuries.

Sweeping revolutionary changes of April 1952 were the logical sequence. By the decree of 2 August, 1953, the great feudal estates were expropriated and distributed among the Indians.

Notwithstanding the sober counsel of a United Nations Technical Mission, reforms were not forthcoming; but their courteous, yet unambiguous warning written two years earlier could be read as an epitaph:

> . . . it must be recognised that in their policies relating to labour and public relations the mining companies have been slow in realising and accepting their social responsibilities . . . the mine owners should recognise more fully than heretofore . . . their inescapable responsibilities in relation to the future economic development of the country that has been the source of their profit. This recognition should be demonstrated particularly by a more positive attitude towards Bolivia as a field for the reinvestment of mining profits.[623]

Many of these expatriate enclaves where heavy direct capital investments were made remained islands of foreign dominance in a sea of stagnation. Economic development was stimulated by the entry of foreign capital, but here again a distinction between the development of *natural* and *human* resources should be kept in the foreground. The distinction is vital because it is frequently assumed in liberal dogma that a development of the former must inevitably accompany a development of the latter.

Myint asserted that although one of the offshoots of liberalization is that it contributed to international labour mobility (and the rapid growth

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622. *Ibid*, p. 148.

623. *Report of the United Nations Mission of Technical Assistance to Bolivia, op. cit.*, pp. 49-50.

of primary production in Asia could not have occurred were it not for the vast labour reserves drawn from the human reservoirs of India and China), yet as "a solution to the problem of human backwardness it has been somewhat unhappy. It has not relieved the population pressure in the donor countries; and in the receiving countries, apart from the complex social problems it has created, it has robbed the indigenous people of the chance to acquire vertical mobility in the labour market through the automatic operation of the laws of supply and demand and the principle of substitution."

More graphic ally, W.E. Moore in his study, *Industrialisation and Labour* hammered home the point:

> Since the decline of slavery as a mode of labour mobilisation, the most frequent system of recruitment and retention of reluctant native labourers has been long-term indenture, supported by a penal sanction for non-fulfilment. This relationship is nominally contractual .... Among illiterate peoples, the contract is often a more formal than an actual protection for the worker, and there is usually no effective control over the promises made by the recruiter but not a part of the actual contract. Once having entered into the contract and having been transported far from his native village, the worker has little recourse for the false promises or any effective way of breaking off the relationship .... Thus whether the "contract" arises out of force and fraud or out of the pressure of poverty, its performance involves a substantial element of direct compulsion. In the Netherlands Indies, particularly in the Outer Provinces, the penal sanction for enforcing employment contracts remained in effect until 1940. It is still widely used in Africa, particularly with respect to workers in the mines .... throughout the colonial and mandated areas of South-east Asia and the Pacific, the shortage or unwillingness of local workers for plantations, mines or factories has provided the rationale for the widespread use of indenture .... The use of various forms of more or less moderate coercion to secure *hacienda*, mining, and even factory labour is endemic in Latin America. The forms vary from the common peonage, or debt servitude, to the long-term indenture contract similar to that used in many colonial areas ....

In fact, the social framework which claims to offer equality of opportunity and ensure the working of the price mechanism has led to violent oscillations in export prices, adverse terms of trade, rural indebtedness,

land alienation and uninhibited exploitation. The fundamental assumption of liberal economic theory is that the free play of market forces leads to the optimum development of individual abilities; whereas in the periphery it has spawned monstrous inequalities and what Dobb calls "a freezing" of the natural endowment format.

Penetration of foreign capital is tantamount to exploitation, Lord Hailey contends, when the administration has granted a concession which does not ensure the colony an adequate return for what it gives; when it alienates lands and deprives the indigenous population of means of gaining their normal livelihood; or when it allows foreign traders to acquire a controlling position hindering the natives from participating in the development of the country; or when it aids capitalists and White settlers to hire or employ native labour on inequitable conditions.[624]

Can it be legitimately claimed (and this definition while woefully inadequate is more useful to the lawyer than to the economist) that foreign investment practices embodied these attributes both before and after World War II? Indeed, they were inseparable from the workings of international capitalism within and outside the colonial world.

The Prebisch-Dobb Analysis[625]

In the post-war period questions of international specialisation are not based on the resurrection of the antediluvian debate between the tariff fanatics and their no less fanatic adversaries.

We have seen that the classical theory of international trade preaches that the configuration of the world into primary producers and manufacturing nations is compatible with the theory of comparative costs and advantages. This branch of international trade theory has lost all relevance (on the assumption that it once had) to the modern world, despite

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624. *The Future of Colonial Peoples*, Princeton University Press, 1944, p. 16.

625. *Cf.* M. Dobb, *Some Aspects of Economic Development: Three Lectures*, Delhi School of Economics, 1951; R. Prebisch, *The Economic Development of Latin America and Its Principal Problems*, United Nations, 1950. The generalisations contained in this work are the fruit of a previous enquiry, cf. "*Panorama general de los problemas de regulacion monetaria y crediticia, en el continente americano*" in *Memoria de la primera reunion de tecnicos sobre problemas de banca central del continente americano*, Mexico, 1946.

its dreary recurrence in American literature textbook. It is another variant of shamanism writ large.

In the first place, comparative costs doctrine, the major premise of the *Paley Report*, is not concerned with the cyclical downswings of an economy strongly oriented towards the production for export of one, or a few, price-sensitive raw materials; secondly, it is a static doctrine that does not allow for the technological dynamism accompanying industrialisation that may affect conditions of production throughout the economy. Rational allocation of resources today may turn out to be irrational tomorrow.[626] How does a market left to its own devices define rationality?

Even in terms of policy recommendation the nostrum of comparative costs has helped to determine attitudes towards development. A case in point is the Currie Mission on the Economic Development of Colombia, undertaken under the auspices of the International Bank. The mission opposed the establishment of an iron and steel industry at Paz de Rio, basing their verdict on the fact that domestic production costs were higher than the price of imported iron and steel.

Whatever its merits or technical demerits, or other considerations such as the level of internal demand or size of the internal market, the fact is that production costs are not the over-riding criterion for the establishment of an industry — in Colombia or elsewhere. Indeed, if it were, industrialisation would hardly have got under way in the United States, let alone Latin America and Asia.

Even if costs are higher than foreign prices, an industry can be economical if the net increase in product derived from the factors employed is greater than that existing in other occupations. No verdict could, therefore, be passed in this specific case without reviewing the other investment alternatives and without discussing the possibilities for import substitution which a country must effect by virtue of its own growth and national priorities. An illustration of this is to be found in the rise in the iron and steel industry in Italy notwithstanding that it imports the great bulk of its iron ore, pyrites and all the coal used in its blast furnaces.

Reaction of enlightened theory to comparative costs is that it perceives development in terms of the national characteristics of an underdevel-

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626. This argument is systematically developed in J.D. Bernal's work, *World Without War*, London, 1958.

oped country, of which disguised unemployment and economic instability are some of the key features.

The theoretical position was first formulated in the addendum of the *Committee on Finance and Industry* presented to Parliament in 1931. It was argued that the basic reason for unrestricted *laissez-faire* is inapplicable without qualification to an economic system which is neither in equilibrium nor in sight of equilibrium. For if a country's productive resources are normally fully employed, a tariff cannot boost output, but can only divert output from one direction to another. But this applies only to a condition of full employment. If this condition is neither fulfilled nor likely to be fulfilled for some time, then the position is entirely different, since "a tariff may bring about a net increase of production and not merely a diversion."

The approach is Keynesian, and in fact Keynes was one of the signatories to this addendum.

The logical implication of these ideas is that the notion of comparative costs approach based on specialisation of production in national areas loses its validity when it is not a question of more or less efficient utilisation of a country's resources, but of employing certain resources of leaving them idle.

We are confronted in the periphery with exploitable resources in terms of a vast reservoir of disguised unemployment. In his critique of orthodoxy, Reder suggests that the argument in favour of multilateralism is invalid when unemployed resources exist. "We do not create goods and services; we create jobs, and the goods and services which flow from employment are more or less incidental. Insofar as resources are idle, the things they can produce are akin to 'free goods' and any scheme to capture them becomes sound economy"[627] — and hence the need for diversification.

For most primary producers, dependence on a narrow range of exports is a source of permanent instability of real income. Demand for such products is inelastic and subject to violent fluctuations. In the absence of diversification a country runs the risk of exposing its low-level economy to violent cyclical tremors.

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627. L. Reder, *Studies in the Theory of Welfare Economics*, p. 193.

Obviously, a predominantly primary producer diversifying its occupational structure cannot aim at economic autarchy. Imports, particularly of capital goods, have to be paid for by exports. Interest rates, amortisation and service charges on foreign investments have largely to be transferred through foreign trade, and hence a stable export trade becomes indispensable.

The Accidental Forces in Specialisation

The degree of specialisation attained by a given country is in certain respects accidental. In fact the presence or absence of natural resources is not the sole determinant of economic progress for there are other factors such as technology, climate and cultural specifities and motivators which determine the contours of economic growth. Viner has pointed out that Switzerland has scarcely a single physical resource for economic development; taking all physical factors into account, it is one of the most poorly endowed countries in the world. Nevertheless, in per capita income it ranks at or near the top.[628]

In all colonial countries specialisation was not the outcome of a benevolent providence, and staple commodities such as sugar, coffee, tea, cocoa, spices, tobacco, rubber, groundnuts, etc. which are plantation crops, were sedulously fostered over a period of centuries by slavery, government grants, subsidies, tax reductions, etc. in the colonies and protectorates of the British and other colonial empires.

In most cases, these products were produced to meet the requirements of external markets. In some instances they are not used at all in the producing territory; in others, a minor amount of local consumption has become incidental to the export trade. Crops such as groundnuts or bananas were developed into export commodities and the quantity and quality required for external use have only been obtained by special effort and supervision of which the United Fruit Company once again offers the prime example.

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628. *International Trade and Economic Development*, 1955, p. 98. It has enormous hydroelectric resources. One of the great attributes of Swiss capitalism is its location in the heart of Central Europe.

Many of these plantation crops were established in regions where geographically they were alien. Cocoa in Ghana, tea in India and rubber in Malaya are graphic illustrations.

Similarly foreign investment in plantations producing for exports have aroused great indignation, with Arthur Lewis claiming that the sugar industry in the West Indies has reached a political impasse. It is unlikely to maintain its present structural forms given the political stresses and strains to which it is subjected. These tensions manifest themselves not only in strikes, lockouts and destruction of crops, but in an abashed hatred against foreign ownership. In certain sugar colonies these strains have reached breaking point, and given the employee-employer relationship it is frequently asked if the crop will ever be harvested.[629]

What has been the upshot of international specialisation on both the soil and plantation labour? Josué de Castro has said that in most of Latin America what helped in definitively ruining the native populations was the one-track exploitation to which almost every region was subjected, and that this specialisation has trundled in its wake the deformed, poverty-ridden edifice symptomatic of the Latin American economies.

Similarly, the African record is a barometer of the extent to which specialisation has jeopardised the African's health, and contributed to soil exhaustion.

Crops produced by indigenous cultivators for export on a big scale are cotton and groundnuts. These are cultivated as cash crops over large tracts of tropical Africa within a modified form of subsistence agriculture in which the cash crop is rotated with food crops grown for subsistence. In some areas favourable market conditions have increased tendencies towards over cropping, and soil deterioration is very much in evidence. This is seen in the cultivation of cotton in Uganda, groundnuts in French West Africa, and elsewhere.

In Uganda "the demand for export crop production requires the opening of more land and further decreases the rest period. Land pressure is especially heavy in the case of cotton. Cotton leads to more soil erosion in Uganda than any other crop." The same spectre hovers over large tracts

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629. W. Arthur Lewis, *Issues in Land Settlement Policy: A Report to the Carribean Commision West Indian Conferences*, 1950.

of Africa. "In territories such as Kenya and Northern Rhodesia," notes a UN report "the indigenous agricultural economies already show signs of deterioration, increases in the productivity of agriculture are needed in the first instance to maintain the food-supply quite apart from any further shift of resources to non-agricultural production."

When these grim facts are brandished the liberal theologian's rejoinder will be that although the evidence is indisputable, the seminal point is that without foreign capital there would be no development. Once again the contention is fallacious and unhistorical, because it ignores that *other* forms of specialisation could have arisen from a different politico-ideological orientation, as was so brilliantly demonstrated by Japan after 1868.

Examples are not lacking to illustrate the accidental nature of specialisation and industrial location in US manufacturing. Typewriters, once upon a time were produced almost exclusively in the north-east. In the absence of European imports during World War II, the State of California established a ceramics industry with extensive Government credits, and the State of Nebraska became an important centre of the American watch-making industry. In fact, the US Government has consistently helped to transform the specialisation pattern of the American economy. It is revelatory also that when a common African plant was found to "hold the answer to the prayers of millions for cortisone," the remedy for arthritis, the US Government sent an expedition to Africa "for seeds, roots, cuttings and plants (to be) transplanted in tropical areas under the jurisdiction of the United States," as the *New York Time* reported on 16 August, 1949, "so that this country would never be cut off from what may become one of the most important plants in the world."

Specialisation is to a large extent the outgrowth of political and strategic necessity — for without the latter we would be unable to explain the motive force behind Soviet and Chinese industrialisation. It has been suggested that if a dividing line were drawn vertically through the United States and a new national boundary separated east from west the present pattern of specialisation could not prevail. Precedents are not lacking to confirm this as in the case of India and Pakistan, the two Germanys, Indo-China and Korea. And the reasons for this is because the two halves of the given area would be faced with balance of payments problems, separate currencies and hence the need for autonomous fiscal, monetary, economic and commercial policies. These mutations would inevitable give rise to

the traditional and familiar arguments in favour of "safeguarding employment and the national interests."

Apart from these "internal" factors the reasons which have contributed to shatter once and for all the liberal version of the international division of labour has been the persistence of the Cold War. Though the statement of United Nations economists is valid that "the costs of development in a small country, poorly endowed with energy and material resources, will be increased and growth held back, unless it is prepared to take fairly full advantage of the international division of labour," it ignores the fact that the politics of the Cold War dictated otherwise.

And Prebisch could assert that reality has undermined the outdated schema of the international division of labour which as a theoretical concept continued to exercise considerable influence. Under the classical schema the specific task that fell to Latin America, as part of the periphery of global capitalism, was that of producing food and raw materials for the imperial centres.

The enormous benefits resulting from increased productivity have not been passed on to the periphery, and hence the great gap between the masses in the peripheral regions and those in the high productivity countries is the discrepancy in their rate of capital formation. The reasoning of conventional liberal theology on the gains of the international division of labour is formally logical. Translated into practice it is tantamount to economic genocide. It is incorrect to claim, that the benefits of technical progress tend to be equalised over the whole of the trading community, and the gains of trade crystallised either in the form of higher incomes or price falls.

Because of the inability of comparative costs theory to act as a guide to economic growth it is not surprising that industrialisation is being relentlessly pursued. Benham suggests other motives.

"They think that because most rich countries are industrialised their country will become rich if it is industrialised. One might well argue that because most wealthy men smoke cigars one has only to smoke cigars to become wealthy."[630] This is the depth of the infantile imbecility to which the witch doctors of economic liberalism have now plunged. For all

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630. "Full Employment and International Trade," *Economica*, August 1946, p. 167.

underdeveloped countries the logic of industrialisation is not a panacea but an imperative. A flourishing agriculture, as List observed, does not preclude the development of industry. In fact, it is in the advanced industrial regions that the highest rates of agricultural productivity are recorded.

Industrialisation does not preclude the efficient development of primary production for export markets, as Danish and New Zealand dairy farming and animal husbandry illustrate. If farm productivity can be lifted by technical innovations and by drawing off the agrarian surplus population, and if real wages can be boosted by industrialisation and rigorous social legislation the disequilibrium between incomes at the centre and periphery can be narrowed without jeopardising economic activity in the export sector. But this raises the question of export stability since it conditions the contours of the national income, the rate of capital accumulation and fiscal stability.

A blatant feature of commodity price movements during the twentieth century is the magnitude of cyclical variations. While annual fluctuations in prices are large in themselves, the degree of instability is heightened by the fact that prices tended to move in the same direction.

In a United Nations study of 25 commodities, it was observed that "the general statistical data as are available indicate that from the latter part of the nineteenth century to the eve of the Second World War, there was a secular downward trend in the prices of primary goods relative to the prices of manufactured goods. On the average, a given quantity of primary exports would pay, at the end of this period, for only 60% of the quantity of manufactured goods which it could buy at the beginning of this period."[631] In the post-war decades this trend has persisted.

The same study showed that fluctuations in the import unit value for these commodities was 13.7% per year, ranging from a minimum of 4.7% to a maximum of 20.7%. Fifteen of the commodities showed a variation of 10%. The spread of these cyclical variations emanating from the large industrial centres means a considerable loss of income to these countries. If stabilisation through international economic cooperation could be

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631. United Nations, *Instability in the Export Markets of Underdeveloped Countries*, New York, 1952. Also United Nations, *Relative Prices of Exports and Imports of Underdeveloped Countries: A Study of Post-War Terms of Trade Between Underdeveloped and Industrialized Countries*, New York, 1949.

achieved, capital formation would be speeded up. Attention has been drawn to this phenomenon as it affects many of the less developed areas, and the implication is that in the absence of price stability the currency reserves of several countries are likely to wilt rapidly in the event of a recession originating overseas. This is precisely what the UNCTAD's marketing monographs documented.

The following table illustrates this trend more clearly.

TABLE 24. *The Terms of Trade Between Primary and Manufacturing Production 1870-1950*

(1913=100)

YEAR	INDICES OF PRIMARY PRODUCTION (1)	INDICES OF MANUFACTURING PRODUCTION (2)	INDICES OF TERMS OF TRADE (1)/(2) (3)
1870	118	106	111
1880	102	102	100
1890	86	90	95
1900	86	88	98
1913	100	100	100
1921	131	186	70
1938	53	72	75
1950	124	122	102

Source: W. Arthur Lewis, "World Production, Prices and Trade, 1870-1950," *Manchester School of Economic and Social Studies*, xx, No. 2, 118 (May 1952)

Keynes called attention to this in an article written in 1938 in which he gave striking figures for the preceding ten years. "Of these four commodities — rubber, cotton, wheat and lead — which are, I think, fairly representative of raw materials marketed in competitive conditions, the average annual price range over the ten years has been 67%. An orderly programme of output, either of the raw materials themselves or of their manufactured products, is scarcely possible in such conditions."[632]

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632. "The Policy of Government Storage of Foodstuffs and Raw Materials," *Economic Journal*, September 1938. This was one of the basic themes that went into the formulation of UNCTAD's abortive integrated programme for commodity regulation.

Lamartine Yates, in a similar study,[633] attributes the root cause to the inelasticity of supply, i.e. its lack of sensitivity to changes in prices stemming from the very structure of domination of primary producers. Even in a cyclical downswing the peasant producer attempts to maintain his cash income at a stable level, so that when prices tumble he reacts not by slashing output, but by increasing it. Their choice (due to the absence of capital reserves) cannot be one of stopping production, because such a choice involves death or starvation. Because manufacturing plants are practically non-existent, there are limited employment possibilities to absorb this labour force.

When we turn to the role of peasant producers in relation to such giants as Unilever and Nestlé, we are confronted with unequal forces such as the peasants' ignorance of market conditions, a chronic and tragic inability to face up to the murderous rapacity of the mega trading corporations and big-time speculators, the host of intermediaries, and the necessity of borrowing at usurious rates which ultimately contribute to enmesh him in a web of debt and impoverishment. Under such conditions price fluctuations create a flourishing milieu for the speculator and usurer.

It is for this reason that the more intelligent spokesmen in the periphery have shied away from the obfuscations of commodity agreements which do not alter the reality of TNC control over global marketing channels.

Technical progress is more rapid in secondary industry than in primary industries of the peripheral areas. In consequence, if prices had been reduced proportionally to productivity increases, this reduction would have been less marked for primary than manufactured products, with the result that the price relationship between the two sectors would have moved in favour of the periphery, and would have continued to do so as their productivities diverged. The periphery would, as a consequence, have benefited from price falls of industrial products to the same degree as consumers in the centre. Profits due to technical progress would have been distributed in conformity with the premises of the international division of labour; the logical conclusion being that the peripheral regions

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633. *Commodity Control*, London, 1943, pp. 214-16.

would have had nothing to gain from industrialisation. It is on this assumption that quantitative restrictions would have been irrational.

Kindleberger's[634] researches have corroborated the Prebisch analysis, which in turn were based on the statistical findings of Fabricant and Frederick Mills. In the course of the years covered by Fabricant's enquiry — the forty years preceding the Second World War — industrial manufacturing costs fell steadily, which was not seen on the price curve, for increased productivity was translated not in terms of prices, but in terms of real income. Wages and salaries climbed proportionately to a fall in real costs. Productivity increases were passed on to the American wage earner, not by a fall in prices, but by a rise in real income and a reduction in working hours. The above conditions were not fulfilled in the peripheral regions. It would have required the same factor mobility as that which characterised the American economy. That mobility is one of the essential assumptions of international trade theory. Indeed, had this mobility existed it would have contributed in principle to an equalisation of factor prices, and the upshot, as far as the United States was concerned, would have been an influx of manpower, not merely from Europe but from Asia and Africa as well. This would have tended to reduce prices in the rest of the world, and equally to a fall in United States living standards as compared with the levels actually achieved.

The classical liberal edifice forms an indivisible whole. If one of its postulates is eliminated the others cannot logically serve to explain the relationship between industrial centres and the primary producing periphery. In an attempt to save the vestiges of the theory of classical specialisation from total annihilation, Samuelson conceived an ingenious model.[635] Given that capital and land are not transferable (in the classical model only land and labour were non-transferable), he claims, that within the periphery equalisation between countries can be achieve irrespective of the fact that labour is immobile; that the equalisation process, implicit in classical specialisation, can be achieved through trade liberalization; and that the movements of goods alone are a sufficient inducement to produce a strong tendency to income equalisation between countries.

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634. C. Kindleberger, *The Terms of Trade: A European Case Study*, New York, 1956.

635. "International Trade and Equalization of Factor Prices," *Economic Journal*, June 1948.

Hicks criticises this model[636] on the grounds that it relegates transport costs, and adds that "the liberal solution does not do the trick" and that this is not surprising because "it did not do the trick even within the boundaries of the more advanced capitalist nations. It certainly cannot be expected that the separate efforts of fragile independent nations, anxious to preserve their national independence, will result in any high degree of international equalisation. It is, in fact, the *national* solidarity of the more advanced nations which made possible the use of socialist methods for equalisation within the country, and any international solidarity which makes greater equalisation possible on an international level seems far to seek."

Technical Advances

However, there seems to be another even more trenchant consideration than those stated in the Dobb-Prebisch analyses. This is the degree to which the advance of modern science and technology has the potential of destroying a wide range of raw materials, or, where liquidation does not take place, the ability to substitute one raw material for another. The classical argument has no relevance to countries whose productivities are moving apart. Indeed, the gap between the centre and the periphery, instead of narrowing, has become wider and will continue to be so unless the pattern of output and trade are modified.

The basic reason for these disparities, as List and Babbage recognised, more than a century ago, lies in the pace of scientific development which is at once an outgrowth of and a stimulus to industrialisation. The creative force of science so far impacted marginally on periphery; and yet precisely because it has never done so science and applied technology constitute a continuous threat to their static primary products.

Take the chemical industry: the destructive and creative potential of science makes nonsense of the theory of classical specialisation. When Le Blanc discovered a process which permitted the cheap production of alkalis from common salt he smashed the monopoly of the vegetable soda industry and prepared the basis for the growth of the English chemical industry. Common salt, in the Le Blanc process, was substituted for a relatively scarce plant, the salt-wort, source of soda and soda products.

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636. *Central Bank of Ceylon Bulletin*, March 1957.

Similarly, the substitution of coal-tar for natural dyes such as Brazil wood, cochineal, madder root and anil had tremendous repercussions on the plantations of India, Brazil and British West Africa resulting in the virtual destruction of these plantations. The eclipse of madder, which had been used for centuries, was accomplished by two German organic chemists Graebe and Liebermann who succeeded in extracting the colouring matter alizarin, to which madder owes its dyeing properties, and then worked out a synthesis from coal-tar anthracene. In 1871, synthetic alizarin was on the market; by 1876, production of madder had plummeted, to one-twentieth of what it had been eight years earlier.

Another classic example of the chemical industry's ability to create new raw material synthesis and drive into obsolence one of nature's creations was seen in Chile's monopoly of nitrates. Sodium nitrates were exploited for nitrogenous fertilisers as a substitute for India's dwindling deposits of potassium nitrates. This new raw material gave Chile an almost perfect natural monopoly, particularly so when the Du Pont Chemical Company discovered a formula in 1857 for the production of gunpowder. It was evident, by the end of the century, that nitrate resources were inadequate to meet growing world needs and were not inexhaustible, whereas there was no apparent limit to the amount of nitrogen that could be extracted as a by-product of coking coal. Other considerations that stimulated research (apart from the powerful one of monopoly price) were strategic and military.

But once again the chemical laboratory improved on nature, through the revolutionary researches of Fritz Haber (greeted at first with derision); by 1914, success had been achieved in fixing atmospheric nitrogen. This is perhaps one of the legendary examples of how a significant innovation in one important sector, in this case the chemical industry, may profoundly affect well-established industries and, indeed, the balance of world economic power. This was not only true in Germany, whose pioneer work contributed so vastly to the revolutionary achievements in this field, but in all industrial countries, which in turn set up nitrogen fixation plants.

The impact of this discovery was widespread and immediate on the direct producers, on the host of intermediaries and even on the fleets used to transport the products to various parts of the globe. The Malthusian fears of the soil chemist Sir William Crookes proved short-lived; Chile had lost an industry; and the grim spectre of a world fertiliser shortage

was exorcised, giving place to a surplus (and to an embarrassing one in the inter-war period). Much the same tale could be told of rubber. Synthetic rubber existed for several decades, but is was in 1957 that the chemists of the Goodyear Rubber Corporation of America succeeded in finding a synthesis for the product of the *Hevea Brasiliensis.* This road has no end.

Synthetic rubber, branded a "necessary bastard" by the former British Colonial Minister Oliver Lyttelton, proved, in many cases before World War II, to possess properties rendering it superior in terms of resistance to liquids, and in particular to the corrosive effects of petroleum products. It is also resistant to deterioration or ageing under conditions which impair the utility of natural rubber. Similarly, synthetic bristles are superior to the natural product.

It is not difficult to conceive what such a permanent revolution implies for the Malayan producer, in the absence of industrialisation and diversification.

Mica, an important Indian export, is destined for a similar fate. Completion of an American synthetic plant crowns the achievement of ten years of research to produce mica synthetically and reduce American dependence on foreign supplies. Synthetic mica is not only a substitute for the natural product, but in operations involving high temperatures it can be used where natural mica is totally ineffective.

There have been similar developments with industrial diamonds. General Electric Company scientists produced the first synthetic diamonds by subjecting graphite to a pressure of 1.5 million lbs. at 5,000°F. The synthetic products were positively identified in every respect with diamonds found in nature. Industrial performance tests have shown that *Borazon* — the name of the synthetic cubic form into which boron is converted under super pressure — is so hard that it easily scratches a natural diamond, and it remains hard at temperatures where a natural diamond melts. According to C. G. Suits, G.E.'s Research Director, it will be able to compete on a cost basis for industrial use if it passes further tests. Actually its costs would be about $2,000 per lb., against $6,000 for the natural product.[637] Plastic detergents and synthetic fibres are pointers in this direction.

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637. *Business Week*, 3 March 1957.

Ever larger and more effective breakthroughs are part of the inexorable advance of science and technology which exposes the soft underbelly of the doctrine of comparative costs, and the putrefucation of what still masquerades as economic theory.

The inference should not be drawn that applied chemical technology is a mephistophelean force *vis-à-vis* the periphery. The implication is rather that the diversification demands sweeping adjustments; changes that are far easier to implement in an already industrialised country than in one whose main source of income remains a single crop or single mineral deposit. It is, in fact, the industrial countries which possess this adaptability of which emergent Asia offers a striking example.

Balanced Growth

By balanced growth is meant a rationally diversified programme which, in view of the special constellation of ideological and social forces, recognises the need for synchronised advances of the dormant productive potentialities of the nation, both human and natural, according to a boldly conceived schedule of rational priorities.

Balanced growth is counterposed to such structural disequilibria as may exist between sectors of the economy and in the occupational distribution of the work-force, and its purpose is to integrate the various sectors. This brings up the question as to how the two major sectors of economic activity are to be organised, for the growth of industrial production necessarily presupposes a relative and even more rapid decline in the agricultural labour force as a precondition for boosts in agricultural productivity.

The concept of what is balanced is variable. It is conditioned by the resource base, the time dimension of the industrial targets to be scaled and the geo-demographic contours of the nation. These, however, are the technical periphery of the application of the concept of balanced growth and its correlative national integration. In the final analysis the rationale of these concepts are found in those staggering transformations in the social relations of production, the liquidation of retrograde elites and the total revamping of the social order.

Given the morphology of underdevelopment and the imperative need to quicken expansion along the entire line, the springs of "normal"

market motivations can never generate a sustained and equitable expansionary momentum.

Hence the alpha and omega of these concepts find their unique rationale in the triumph of the planning principle, predicated as it must be on democratization.

Shift in Manpower Resources

The crux of the problem is the rapidity with which industry absorbs the surplus rural population and the pace of mechanisation. Although no exact correlation exists between the rhythm of industrial growth and the occupational distribution data suggests that the volume of employment in agriculture has declined, whereas the opposite is true in the secondary and tertiary sectors.[638]

The fundamental problem which presents itself to the periphery, is not merely diversification of the economic structure in terms of occupational distribution; but equally one of integrating the rural and urban areas.

Disguised Unemployment

To estimate rural surplus manpower it is necessary to evaluate the number of workers required per acre of agriculture, taking into account the nature of the crop, given techniques and available equipment. The rural surplus cannot be assessed from general data; it has to be worked out for each locality separately.

In a theoretical discussion Navarette defined both the general concept and its various manifestations: "With a given labour force, underemploy-

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638. *Conditions of Economic Progress*, London, 1942, p. 182. Also A.G.B. Fisher, *Economic Progress and Social Security*, pp. 6-7. The classification of Clark and Fisher holds good only under certain conditions. There are numerous underdeveloped countries where the tertiary sector is extremely vast.

It is for this reason that United Nations' economists have opted for the Marxist classification. "In the eastern European countries services not directly connected with the production and transport of goods are regarded as productive and their value is thus excluded from national income. For a poor country which is trying to develop its industry and to reduce the underemployment common in service trades, the Marxist definition of national income has some obvious advantages over the more inclusive concept suited to wealthy industrialized economies and now commonly adopted in underdeveloped countries." United Nations, *Economic Survey of Europe since the War*, Geneva, 1953, p. 25.

ment can be defined as a situation in which the transfer of a number of individuals to other work would not appreciably reduce the total product of the activity from which they have been removed. In other words, the marginal productivity of these individuals in their former jobs is either nil or very close to zero."[639]

The term "disguised unemployment" was first used by Joan Robinson in her *Essays on the Theory of Employment*. In the case of unemployment in a developed country she noted that total unemployment in its most familiar modern form is a relatively recent, uncommon local phenomenon. She defines disguised unemployment as a phenomenon which exists when owing to the absence of vacancies, unemployed workers are driven into "inferior" occupations characterised by low productivity.[640] "Thus a decline in demand for the product of the general run of industries leads to a diversion of labour from occupations to which productivity is higher to others where it is lower. The cause of this diversion, a decline in effective demand, is exactly the same as the cause of unemployment in the ordinary sense and it is natural to describe the adoption of inferior occupations by dismissed workers as disguised unemployment."

Linking the concept with an underlying symptom of an underdeveloped country, this means that disguised unemployment is a condition in which, even with unchanged techniques of agriculture a large part of the population engaged in agriculture could be shifted without reducing output.

The disguised unemployed, therefore, are those persons who work on their own account and who are so numerous, relative to resources, that if there was labour reallocation to other sectors aggregate output of the sector from which they were withdrawn would not be affected even assuming that there was no substitution of capital for labour.

Mobilising the Surplus

China's experience suggests that it is possible to tackle and wipe out disguised unemployment by effective social organisation and by "the tool

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639. "La subocupacion en las economias poco desarrolladas," *El Trimestre Economico*, Vol. XVII, October-December 1951.

640. *Essays on the Theory of Employment*, op. cit., p. 84.

reform movement" which involves applying the simple techniques of physics, dynamics and mechanics. As a corollary, this implies a more rational allocation of the labour force in the tackling of certain specific objectives, a widening and deepening of the investment field, as a precondition for a simultaneous increase in the marketable surplus.

In current economic literature, this problem is tackled in two ways by two sets of interdependent theses in favour of deficit financing and of monetary expansion for financing developmental and growth activities in the underdeveloped countries. The first, which may be called the employment argument, contends that the fundamental problem facing countries in that position is not merely one of development and growth; they have a rapidly multiplying agrarian surplus population which must be provided with employment. A transfer of this labour surplus to productive enterprise will not lead to a fall in agricultural productivity but to increase irrigation, construction of schools and other constructional activities from local materials, and the production of consumer durables.

Money may therefore be created but it should be noted that this inflationary itch should not be an inhibitor to financing such activities. Prices may rise but not excessively, for output of consumer goods would not fall, but would be redistributed. At a later stage, when output rises equilibrium will be restored.

Moreover, labour switched to industry and construction projects will now be receiving incomes where previously they had received none or highly fluctuating ones. Rise in money incomes and a momentarily inelastic total supply of consumer durables will therefore tend to exert a push on prices according to supplies and income elasticity for them.

As industrial investment bears fruit in increased production, prices should drop. The important point to observe is that this temporary inflationary pressure is not a symptom of forced savings. It can occur even when there is no average fall in per capita consumption, although it may have distributional effects beneficial to some sectors and prejudicial to others.

In an integrally planned economy, however, the strategic problems is tapping the extra incomes of workers and peasants; and while theoretically it is true that there is no apparent limit to the extraction of the surplus, it is bad planning to assume that the whole of this surplus can be mopped up this way since a part of it must be piped into an *incentive*

reservoir as inducements to shock workers and activists to boost production in the rural and urban areas.

Imperatives of Economic Reorganisation

It would be negative to conclude this work in stating that industrialisation is likely to be determined by the price system and an entrepreneurial profitariat. It is erroneous to speak of "integrating" rural and urban areas or of implementing economic plans without reference to existing social institutions and social relations of production. This is basic, but one which has, in practice, been sedulously ignored by Indian planners.

The crucial fact rendering the realisation of a development plan illusory is the social and political power of the state apparatus. The tie-up of property owning classes controlling the destinies of most underdeveloped countries cannot be expected to design and implement a set of measures running counter to each and all of their immediate vested interests. If, to mollify a restive public, agrarian reforms are promulgated their enforcement is consciously and systematically sabotaged.

The government which represents a political compromise between landed and business interests, cannot call a halt to the wasteful use of resources and of land and the prodigious consumption of its ruling elites. The government, representing as it does a compromise of these vested interests, cannot suppress monopolistic abuses, speculation, profiteering, capital flights and other machinations of its power elite. Set up to safeguard existing property rights and privileges, the government "cannot become the architect of a policy calculated to destroy the privileges standing in the way of economic progress and to place the property and incomes derived from it at the service of a society as a whole."[641] Pakistan, a fossilized Islamic state in the throes of decomposition is indicative of this thust but is by no means the solitary swallow.

This is so because state power and the appetites of this retrograde power elite are synonymous. In this sense the price to be paid for economic growth is high; it means creating a society from which economic, political and social privileges have been purged. As a UN report puts it,

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641. Paul Baran "On the Political Economy of Backwardness," *Manchester School*, January 1952.

"given leadership and the public will to push on, all problems are soluble." If leaders "are reactionary, selfish and corrupt, the masses in turn are dispirited, and seem to lack initiative. But if the leaders win the confidence of the country and prove themselves to be vigorous in eradicating privileges and gross inequalities, they can inspire the masses with an enthusiasm for progress which carries all before it."[642] These words that seem to smack of utopianism are however deeply rooted in reality. Mass civic responsibility in a society depends on the machinery of state, class and caste distinctions and the degree of privilege and corruption that dominate that society.

Stating the case for land reforms, even a diluted Fabian as Galbraith notes that it is "a revolutionary step; it passes power, property and status from one group in the community to another. If the government of the country is dominated or strongly influenced by the land-holding groups — the one that is losing its prerogatives — no one should expect effective land legislation as an act of grace . . . ."[643] This encapsulates the quintessential nature of the class struggle. Landlords in backward countries, if they see clearly their interest as some have the undoubted capacity to do, will not welcome industrialisation which will make their labour supply independent and expensive. Similarly, "the soldiers who infest the political life of the South American republics would be quickly returned to barracks by the capitalists and the labour and farm movements that effective economic development would bring."[644] He fails to draw the implication: militarists are merely a symptom, not a cause of the infection.

Foreign capital as we have seen has not underpinned democratisation in the less developed areas. Rather, it invariably and harmoniously adapts itself to a semi-feudal military clique. Referring to the petroleum bonanza in Venezuela, an American capitalist gushes: "Here in Venezuela you have *the right to do what you like with your capital. This right is dearer to me than all the political rights in the world.*"[645] Indeed, the Seven Sisters have

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642. Measures, *op. cit.*, p. 16

643. "Conditions for Economic Change in Underdeveloped Countries," *Journal of Farm Economics*, November 1951

644. *Ibid.*

645. *Time*, 21 September 1952.

never underpinned democracy in any of the Latin American countries or elsewhere. This is not fortuitous. It would be illusory to expect them to do so. Their goal is profits; not people. In 1948, President Romulo Gallegos of Venezuela — President of "a democratically elected government," in the words of *The New York Times*, was ousted. "United States petroleum companies . . . were responsible for the recent Army coup," charged Gallegos. "The Army clique was encouraged to take over the country by the oil companies and local capital. The military attaché of a large power had been at army headquarters when the coup was staged."[646] Indeed, as usual, he was the US military attaché.

Commenting several years later on the foreign-backed dictatorship that knifed the Gallegos administration *The New York Times* editorialised:

> The Venezuelan Government, and those businessmen who have kept on good terms with dictator Perez Jimenez, have had rich pickings out of the oil and other resources with which nature has endowed Venezuela ... three quarters of his subjects have inadequate medical facilities, half the population is illiterate, nearly half the children have to stay out of school because there are not enough schools and teachers, and the fancy estimates of wage rates in Caracas misrepresent the actual poverty of most Venezuelans . . . . But with Jimenez getting and keeping his office by subterfuge, the suppression of liberties and the imprisonment of patriotic Venezuelans he cannot expect to be acclaimed as a hero in this country or in any other.[647]

Indeed what has changed in Venezuela in succeeding decades other than the accumulation of misery? The Jimenez cabal has toppled, but such epithets as "subterfuge, suppression of liberties and imprisonment" are not impediments to foreign investment: these are positive inducements. The long winding trail of native politicos and compradores in the service of foreign investors, of which the Gomez and Jimenez and Pinochet dictatorships were merely savage latent reminders, are strewn over the balance sheets of the mammoth expatriate enclaves, and their CIA extensions.

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646. *New York Times*, 6 December 1948.

647. *New York Times*, 10 November 1957.

In fact, the buzz word "political stability" is synonymous with the propping up of the most rotten political elements, since the "financial" risks involved in democratisation are such as might render the investment climate "hostile" in the eyes of the foreign investor. It was precisely for this reason that Jimenez, a graduate of West Point, received the American Legion of Merit. It commended him for his "spirit of friendship and co-operation," and his "sound foreign investment policies." Were not the likes of such scum as Jimenez lauded as the beacon bearers of the "Free World" by the US caste oligarchy and the custodians of the Gulag?

Like various banana republics in Latin America the tumultuous events in Iran highlighted the contradiction between the major articulate premise of "Western democracy" and the social background of the expatriate enclaves. Economists of the IBRD in their monograph, *The Economic Development of Iraq* wrote:

> ID 10 for the winter crop and perhaps another ID 10 for a small summer crop of sesame would constitute the peasants' total cash income for the year. This income will usually be spent on food, clothing and possibly some low-grade domestic tobacco. Two of the most important items in food expenditure are sugar and tea. Dates, particularly in the South, and a few vegetables are beyond the reach of the fellah and are sold in the towns. Meat is only eaten occasionally . . . . Nor does the fellah who owns no animals other than his draft animals consume much milk or *leban* (sour milk) . . . . Few fellahin wear shoes. Hardly anything is spent on housing or furniture, the living quarters being a small mud hut without windows and hardly any furnishings but a few mats and cooking utensils. Soap, for example, is undoubtedly a luxury.

This was the land of Nuri-es-Said "the keystone of the democratic arch" as he was ludicrously labelled by a British propagandist of the Baghdad Pact. A graduate of the British military academy of Sandhurst (counterpart to West Point the citadel of US State terrorism) he epitomized the exemplary attributes of the state terrorist stooge necessitated by imperialism.

The Economist, ideological mouthpiece of the City, which, up to the time of the "Iraqi tragedy," exultantly extolled the virtues of this pillar of respectability now contemptuously writes his epitaph in Nasserian ink:

> Nuri-es-Said, the foremost statesman of modern Iraq, died wretchedly in the streets of Baghdad, wrapped like a woman in black cloth, his face made up and covered with the veil that native harlots usually wear .... Not one friendly door offered sanctuary; for hours he and his companion wandered through streets crowded with people who hated him and all he stood for. At most there is to be found in Baghdad some pity at the manner of his death; and that is rare.

Stemming from the intensified "political instability" of the periphery, the fickle cyclical nature of capital outflow from the lending countries, it becomes a matter of the greatest urgency for the less developed to concentrate on tapping their own internal resources — to avoid the economic repression attendant on the inflow of private capital. But here again we are bedevilled with the machinations of vested interests, senile social institutions and archaic agricultural productive relations.

Land Distribution: The Framework

Recent United Nations monographs indicate the extent to which land ownership is a product of social structure. Commenting on the high level of land concentration in Iran, *The New York Times* observed: "There have been no published reports of the extent of the Shah's estates. But government sources estimated that he inherited from his father, the Shah Reza Pahlevi, one thousand villages with surrounding farm land supporting a quarter of a million peasants."

And *The Economist*, describing the social symptoms of this diseased social order, noted that his hand-picked parliament and palace-created opposition has "never dared to be other than abjectly loyal." The present arrangement does not provide an atmosphere congenial to the sprouting of new administrative talent. "The old guard, representing a few hundred land-owning families, is depending on the Shah to maintain them in their positions, none of which, naturally, they want to surrender. The peasants also depend on the Shah to protect them; but the protection they seek is from the very landlords who form the limited base on which his support rests."

Given a predominantly agrarian structure savings cannot be diverted into productive enterprise, and are invariably used unproductively. Not only does this massively contribute to shave the volume of savings, but it

is frequently true that traders and merchants and other species of mercantile capitalists, in a drive to emulate the landed aristocracy slash the savings flow available for national development.

Hakim states that the large landowners of Lebanon (a generalisation applicable to all of Western Asia) who spend most, if not all of their landed income on consumption such as the maintenance of large country and urban residences, armies of domestics, fabulous luxuries and political campaigns "designed to maintain their dominant position in the state." [648]

With the exception of Cuba, he same holds for all of Latin America: if 10% of the income of the upper 1% of the income receivers were productively reinvested, the current rate of productive investment in the country would soar by 50%.[649] Indubitably so. Such salutary changes, then and now, are incompatible however with US sustained regional hegemonism.

Underlining the importance of land as a source of investment and wealth in the Philippines, the *Bell Report*[650] states that land has been the best investment even under very unstable political conditions, and that huge rents and profits enjoyed by a camarilla of absentee landlords have gone into the acquisition of more land. The upshot has been that land ownership by farmers who work the land has steadily dropped to a point where land values have soared, and tenants have little or no chance of getting shares in the land they farm. These conditions were created during the US occupation and retained after independence.

Philippine farmers, says the Report, are caught between two millstones. On top is the landlord gouging an exorbitant share of the crop despite the spate of innocuous legal restrictions. Below is the deplorably low productivity of the land he works. "The farmer cannot see any avenue of escape.

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648. *Middle East Economic Papers*, 1954, p. 85. Also, Egyptian Ministry of Social Affairs, *Second Social Welfare Seminar for Arab States of the Middle East*, Cairo, 1950; A.A. Speiser, "Cultural Factors in Social Dynamics in the Near East," *The Middle East Journal*, No. 7, 1953.

649. *The Economic Development of Nicaragua, Report of a Mission Organized by the International Bank for Reconstruction and Development at the Request of the Government of Nicaragua*, Baltimore, 1953, p. 99.

650. *Bell Report*, p. 55.

He has no credit except at usurer's rates. He is resistant to change for fear of losing the meagre livelihood he and his family regards as an unjust share of the harvest of his work going to the landlord."[651]

Land distribution, therefore, is not a political huckster's gimmick to put an end to the "exploitation" of the peasantry, but the first step aimed at cutting the vicious circle and boosting the rate of capital formation. Taken in isolation from other social forces land reforms which have been granted as sops to a restive peasantry can be retrograde, for these paltry gestures are frequently intended (i.e. the post-war agrarian "reforms" in Iran) as tactical gambits to consolidate the power of a defunct and threatened feudal order.

Moreover, even if the land reform movement was implemented it would lead to a fragmentation of holdings reducing aggregate output. This is because, given the inherent weaknesses of peasant agriculture, the farmer is unable to have recourse to the boosters of farm productivity — fertilisers, modern farm equipment, etc. Hence agricultural reforms will be vitiated unless partnered by consolidation of holdings and rapid strides in industrialisation which alone can effectively ensure continuous increases in the marketable surplus. Moreover, the very dynamics of an agrarian reforms, hitched to other social and institutional changes, is a mighty impulse in harnessing the psychological enthusiasm of a peasantry fossilised by centuries of ignorance, squalor, superstition, starvation and exploitation.[652]

The Agrarian Take-off

Vigorous frontal assaults on the agrarian front are pre-conditions for a sustained take-off into economic growth and the ultimate triumph of the social revolution. This then, notwithstanding their differing doctrinal *prises de position* and, to a large extent because of them, underlies the divergences between India and China.

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651. *Report to the President of the United States by the Economic Survey Mission to the Philippines, Washington*, 1950.

652. *Report of the Indian Delegation to China on Agricultural Planning and Techniques*, New Delhi, Government of India, Ministry of Food and Agriculture, 1956, pp. 106-09.

Starting the industrialisation race with lower production levels than India, with a ruptured administrative structure and a much larger population than India's (and of course considerably less foreign aid at its disposal) the dramatic successes that catapulted China into the slipstream of growth signalised the pivotal importance of liberation of which the agrarian revolution is but one facet. Commenting on the yawning productive abyss between these two Asian colossi, and deploring continued foreign aid as a defeatist crutch, India's number one planner, Mahalanobis noted: "This attitude of mind was in sharp contrast to China's outlook where, with a 40% bigger population, they got off to rapid development with the help of foreign loans of only Rs. 1,059 crores over 7 or 8 years."

China's agrarian revolution was the most conspicuous feature of a far wider social revolution that had been unleashed in Asia following the October Revolution. For it was in these thirty years of relentless struggle that the nations, lacerated by the fires of civil war and foreign genocide, forged and tempered its present leadership. The mechanics of the agrarian revolution is thus the most decisive catalytic agent of the Chinese revolution, which, in its period of gestation and after, has always aimed at linking the solution of the land question with other political and economic programmes; as such it was never an independent variable.

Could the geographical ubiquity and periodicity of famine be inputed exclusively to some malthusian *diabolus ex machina*, providential dispensation and hence irremediable, or was this human condition the outgrowth of a feudal-comprador institutional order of things and therefore remediable? Land tenure, foresaw Tawney in 1938, will have to be revolutionised and the stranglehold of the usurer and middlemen broken before much can be expected in the way of technical progress. "To carry out such a policy will demand," he said "not only knowledge, but a stout heart and a firm hand; but it would open the door to a new era of Chinese history." This was prophetic. To be sure, this was precisely the apothesis of China's liberation.

The cultivator was entrapped between the Scylla of landlord exaction and the Charybdis of the extortionate moneylender with rates of interest oscillating between 40 and 45 %. Chinese agriculture, like India's today, required not palliatives but global liberation. Underlining the dead-end of Chinese agriculture one year before the Kuomintang debacle, Prof. Gourou despairingly wrote in his *"Notes on China's Unused Uplands,"* that success

"would require a continuity of perspective and a freedom of action which are perhaps not to be found in the range of human capacities. Nevertheless, discussion helps at least to stress the fundamental cause of the Chinese crisis, namely agricultural over specialised methods of exploiting natural resources. So long as the root cause of the difficulty is not attacked, so long as there is no reduction in the excessive rural population in proportion to the amount of cultivated land available, just so long will the rural masses of Chinese Asia continue to eke out a miserable existence. Any measure which deals only with the superficial symptoms of the difficulty will prove to be merely an ineffective palliative."

How could a sweeping liberation of the Chinese countryside be brought about, given the unfavourable land-man ratio, the deeply rooted millenary individualist legacies of peasant agriculture?[653] The endemic crisis of the old order heralded the birth of a revolutionary movement remorselessly bent on shattering the shackles of a senile social order of which landlordism was the key link. The saga of this movement straddles decades of revolutionary struggles from Chingkanshan in 1927 to ultimate freedom in 1949; it is also the epic of the rural Soviets in Honan and Kiangsi and the loess hills of Yenan. For it was in these and other embattled rebel outposts that China's agrarian blueprints took shape. In these confined blockaded regions disciplined, battle-tested groups of "rural activists and agitators" were formed — forerunners of that mighty array of new forces that grew with the cumulative momentum of the revolution.

In their *Fundamental Laws of the Chinese Soviet Republic* published in 1931, the liberators showed to what extent they considered peasant proprietorship to be a transient historical category. The land problem, non-

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653. The following literature is necessary for a deeper understanding on this social movement: Edgar Snow, *Red Star Over China*, New York, 1938; Agnes Smedley, The Great Road: *The Life and Times of Chu Teh*, New York, 1956; Hsiao-Tung Fei, *Peasant Life in China*, London, 1939; R.H. Tawney, *Land and Labour in China*, London, 1932; R.H. Tawney (ed.), *Agrarian China, Selected Source Materials*, London, 1939. J.L. Buck, *Land Utilisation in China*, University of Chicago Press, 1937. Edgar Snow, *Journey to the Beginning*, New York, 1958; S. Adler, The Chinese Economy, London, 1957; Gyan Chand, *The New Economy of China*, Bombay, 1958; Choh-ming, Li, *Economic Development of Communist China*, California University Press, 1959; T.J. Hughes and D.E.T. Luard, *The Economic Development of Communist China*, 1948-58, Oxford University Press, 1959; Chao Kuo-chun, *Agrarian Policy of the Chinese Communist Party*, 1921-1959, Bombay, 1960.

compensatory confiscation and redistribution, met the immediate needs of the poor peasantry, partnering the political and strategic consolidation of the liberated areas. Abolition of the archaic fragments of the feudal order were concomitants of land distribution; child and arranged marriages, foot binding, infanticide, dowries, the buying and selling of wives as concubines and other relics of a moribund China.

Inauguration of the second Chinese Republic in 1949 was followed by the Agrarian Bill of 1950, which systematised the experiences of years of struggle. Correlative with this agrarian freedom struggle went an enlargement of the public sector that roped in basic industries, banks, insurance companies, the merging of private commercial and industrial undertaking.

Aim of the land law was "to abolish the land ownership system of feudal tenure and exploitation and introduce the system of peasant land proprietorship, to set free the productive forces of the rural areas . . . paving the way for new China's industrialisation." At no time was intellectual hospitality given to the myth that land reform was the therapeutic for the crisis of the old China. It was evident, apart from other politico-social considerations, given the prodigious fertility rates, that land reforms would have exacerbated the crisis. In its incipient stages lands reform was moored to three measures:

1. agrarian or social reorganization,
2. economic or price policy (i.e. tax, bulk purchase arrangements, credit, et.) and
3. technical reforms.

Focus was on point 1 with so that in the short compass of two years 118 million acres were distributed among 300 million peasants, or an average of one-third acre per head. China's liberators realised that if continuous rises in the marketable surplus were to be forthcoming (with the increasing demand of the urban industrialised areas for foodgrains and technical crops) larger capitalised units were imperative. Coincident with the US instigation of the Korean war, the agrarian law, fell like a thunderous avalanche shattering old class relations and preparing the ground for those novel social experiments that led directly from the mutual-aid teams to the People's Communes.

It could be argued that liberationist policy of equal land distribution, with its ensuing fragmentation was a means of dragooning the peasantry later into collectives. As experience has taught us China's leaders are

revolutionaries first and foremost — and the land problem was essentially a launching pad for the seizure of political power and freedom. At no stage in the Chinese agrarian take-off in contrast to the Indian Congress party did we find obeisance to the fetishes of a peasant cult, as the writings of Mao, Liu Shao-chi and others bear witness. Overhaul of rural society was predicated on the eclipse of the peasants as the central figure in Chinese agriculture. As the Indian co-operative delegation noted: "While each step is a link in a particular chain of events, each step is so complete in itself that it ceases to appear as just a link. One of the compelling technical reasons behind the dash to consolidate holdings was the trend of many "poor peasants" to sell their land to "rich peasants" after land distribution, and the resurrection of a class of *kulaks*, notably in Hopei and Kirin.

It was the strategy of China's liberators in a pamphlet entitled *Agricultural Co-operation in China* that "land was distributed to the peasants after the feudal landlord class was overthrown. But they still remained dispersed on their tiny plots of land. As long as this persisted it could serve as an economic foundation for capitalist rule. The new class of exploiters — the rich peasant — following in the footsteps of the feudal landlords who oppressed them in the past, could swallow them up again one by one, and this would end in another concentration of land in the hands of exploiters."

From a tactical angle Chairman Mao's approach was that "the nation could not stand with one foot on socialist industry and the other on peasant agriculture," for this was a highly unstable equilibrium that could lead to agricultural stagnation with all its calamitous repercussions; the upshot being that "if positions in the countryside are not held by socialism, capitalism will assuredly occupy them." Landlordism and all its works were not only to be razed, but its very memories were to be damned. As early as 1937, Mao had already charted the broad seas, winds and currents on which China's ship was to embark. "For thousands of years a system of individual production has prevailed among the peasants, under which a family or a household makes a productive unit. This scattered, individual form of production was the economic foundation of feudal rule and plunged the peasants into grinding poverty. The only way to change this state is gradual collectivisation, the only way to bring about collectivisation is . . . through co-operatives."

Under conditions prevailing in China landed vested interests spurred on by the Kuomintang resorted to class violence on an unprecedented scale that was matched by counter-class measures. "We hold that with regard to rich peasants, landlords and capitalists, convincing is not enough", declared Liu Shao-chi. As a class, these people cannot be converted by "persuasion" only. Doctrinally this stance was not far from that of Nehru articulated in his *Discovery of India*. and penned in a British prison:

> Economic interests shape the political views of groups and classes. Neither reason nor moral considerations override these interests. Individuals may be converted, they may surrender their special privileges, although this is rare enough, but classes and groups do not do so. The attempt to convert a governing and privileged class into forsaking power and giving up its unjust privileges has therefore always so far failed, and there seems to be no reason whatever to hold that it will succeed in the future.

A movement so breathtaking in its conception and scope and which engendered such staggering abnegation and enthusiasm cannot be dismissed by the facile formulae of violence, intimidation and violations of human rights, the rhetorical claptrap of the China watchers. "To a visiting team from India, such as ours, who are used to individual cultivation, the Chinese success appeared no less than a miracle," declared the authors of the *Report of the Indian Delegation on Agrarian Co-operatives.*

And again:

> A revolution is afoot in the countryside, the dominant motive of which is not fear, but a ferment in people's minds which no administration by itself could have brought about. China presented a spectacle of a self-sacrificing and disciplined leadership actuated by high motives of a quick build-up of their country and persuading the people in accepting a new way of life.

And the 1956 *Report of the Indian Delegation to China on Agricultural Planning and Techniques* declared on the question of coercion that "this may or may not be so . . . but we should doubt if the effort and hardwork which are being put in by the peasants could be attributed to any appreciable extent to force, compulsion and the like."

Another aspect of the Chinese land revolution which gained the plaudits of the Indian experts was the sense of direction and sequence in the nation's planning objective, as seen in the question asked by Dr. Sen, of the Planning Commission, and the answer he received from a high Chinese official, a former veteran commander of the People's Liberation Army.

> *I put him the question* — In China you had your liberation in 1949: you had passed your land reforms legislation in 1952, but you started co-operative farming on a country-wide scale only in 1954, and by 1956 I find that 92% of your farmers are covered by co-operative farming societies. How was it possible? How is it that you are not facing the sort of trouble that the USSR had to face?
>
> *He replied*: When we were fighting in the Red Army, our main principle was that we fought a battle only when we were sure of our objective, the objective was worth fighting for and we were absolutely sure of victory. We never fought a battle for which we were not fully prepared and we were not sure to win. During the long years of guerilla warfare we avoided more battles than we fought. In our planning and administration we are also following the same principle. We do not take up any measure until we have adequately prepared the ground for it, and about the success of which we are not sure.

This then is the supreme contrast between India's abysmally failed land reform and that of liberated China. In India, the human transmission belt which China's leaders spawned over a period of decades for carrying out such extensive social surgery: rural activists, women's and peasants' associations — were non-existent in India's 612,000 villages. It is primarily these social dynamos that constitute the elite shock troops of the "mass line."

"In China," writes the Indian co-operative delegation, "village leadership was organized in the peasants' associations who formed the nucleus for the subsequent land reform programme and provided leadership for the co-operatives. As a rule it can be stated that in the agrarian co-operatives in China youth is in the forefront and women have been playing an important role in the village leadership."

Extolling the triumphs of "the mass line" at the *Eighth National Congress* Liu Shao-chi declared: "In carrying out the land reform our party did not take the single and easy way of merely relying on administrative

decrees and of 'bestowing' land on the peasants. For three solid years after the establishment of the Republic, we applied ourselves to awaken the class-consciousness of the peasants; it accomplished the task of land reform through the struggle of the peasants themselves." The strategy of land reform lay not merely in eliminating the landlord, but in weakening and isolating the "rich peasant." Economic conditions were thus propitious for short-circuiting the time required for the leap into agricultural co-operation.

With negative and positive Soviet experience to draw on China's leaders saw the extent to which the land problem and industrialisation were asymptotic processes. Technical reforms could not be carried out unless accompanied by tumultuous, social political and ideological changes. Rational use of farm land depended on better seed, extended use of fertiliser and manures, rural electrification, irrigation and drainage projects, better utilisation of labour resources and not least, flood control. But such technical changes, coupled with the more lavish use of agricultural credit, were only feasible by the consolidation of fragmented holdings into co-operative enterprises on a national scale. Successive reports of the agricultural planning commission belaboured this point.

The pressing need to accelerate the tempo of co-operativisation was sounded by Mao in his pamphlet on *The Question of Agricultural Co-operation*. "We should realise here and now," he wrote, "that an upsurge in socialist transformation will soon come about . . . . This is inevitable. We must be convinced first, that the peasants are willing, led by the Party, gradually to follow the socialist road; second, that the Party is able to guide the peasants to take this road. These two points are the essence, the crux of the matter. If we lack this conviction, it is impossible for us to virtually achieve socialism in the period of roughly three five year plan periods."

The "surging tide period" of co-operation was now ushered in. Elementary types of co-operatives were phased into advanced ones where land, agricultural implements and draught animals were under collective ownership. Mutual-aid teams, a rudimentary form of co-operative, became the first basic unit to emerge as a sequel to land reform. By end of 1952, 40% of total peasant households were organised in these units, the number swelling to 59% at end of 1954. In many cases, these mutual-aid teams were merged, at the zenith of the surging tide period, into

advanced co-operatives, skipping the intermediate stage of elementary co-operatives.

The springs of rural credit had dried up, following land reform, and one of the by-products of the enlargement of the basic unit was the systematised expansion of rural credit and the setting up of the Agricultural Bank in 1955. Diffusion of these institutions gave Beijing one more commanding height in the countryside, in addition to its already entrenched position in marketing and price fixing.

Rates of interest charged by the agricultural and the credit societies were nationally uniform with producer's co-operatives on "productive loans," whereas "unproductive loans" for individual members stood at 8.64%. Within three years the countryside was dotted with a dense network of viable credit institutions, as I personally witnessed. This is in contrast to India, as the *Rural Credit Survey Committee* pointed out. Only 6% of the peasants's credit needs are met by the State and the co-operatives: the field is wide open to the landlord, intermediary and usurer. Similarly by offering assured markets and price supports Peking gave an impetus to the consolidation of the co-operative movement.

From middle 1956 to the spectacular of advent the People's Communes, co-operatives were continuously being consolidated and enlarged. Although, the commune witnessed the emergence of a qualitatively distinct stage in agriculture, it also signalised the quantitative enlargement of the productive unit.[654]

China's unprecedented production and social breakthroughs along the entire line once more dramatised the crucial role of land reforms in the economic take-off. Notwithstanding the burdensome legacies bequeathed by the Old China, the devastation and administrative chaos left in the wake of the Japanese occupant, the nation succeeded, in less than a decade, on embarking on an economic revolution whose scope and intensity finds no parallel in human history. All this at a moment when the liquidationist juggernaut of US and UK state terrorism had flung their vast ideological and material resources in a vain endeavour to annihilate the unsurpassed splendours of China's liberation.

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654. *Cf.* F.F. Clairmont, "China's Communes: The Mechanics of an Agarian Revolution," *Queen's Quarterly*, Summer 1959

New China's global economic planning is characterized by the clarity of its goals which stands out as jagged cliffs — a feature so markedly absent in Indian planning.[655] As things are," wrote one observer in *The Times of India* "not only the rank and file, but even the second and third rank leadership of the ruling party is unaware of what the plan is about and what it seeks to achieve." And what is true of Congress leadership, or renunciation of leadership, is truer still of the urban and rural masses whose apathy towards official Congress policies have not diminished as indicated even by official government reports.

Harnessing the enormous energies and *élan* of the masses to a common planned objective demands an intensive preparation and dedicated leadership at every level of administration.

Pointing to the writing on the wall and emphasising the steps to meet it the *Ford Foundation Report* pungently pilloried the failure of Congress agrarian reforms.

> "An effective crusade involves more than plans. It requires allocation of the necessary resources, hard work, zeal, enthusiasm and sacrifice on the part of all those who are engaged in it. Good planning is meaningless without adequate execution of the plans that are made. Business as usual will not achieve the food production targets. The steps necessary to mobilize the nation for action must be clearly outlined."

Genuine Indian land reforms have yet to begin — abolition of the Zemindari was merely a scratching of the surface. In succeeding decades since independence a decadent and irrevocably corrupt Congress party has been caught in the grip of paralysis, and has exhibited its crass inability to implement legislation of an egalitarian nature. Even in its current state of apoplexy it continues to exhibit its unalterable nature: the promoter, protagonist and protector of the rich and super-rich.

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655. This point has been elaborated in my article, "The Chinese and Indian Land Problem: Divergent Approaches," *Malayan Economic Review*, April 1960.

6

Concluding Reflections The Counterblast of Crisis

From whence have we come and whither are we going has always been a major theme of all religions and philosophical speculation. It is one however that is singularly absent in the rootless abstractions of bourgeois economics. Most clearly portrayed in the bogus claims of free trade dogma now posing as humanity's angel of salvation: the twentieth century's biggest verbal embezzlement.

When *Economic Liberalism* appeared on the threshold of the sixties, an exiguous segment of the world economy was still celebrating the most euphorically unprecedented booms in the annals of capitalism's fluctuating fortunes. The *Pax Americana* lay unshorn. The United Nations was not yet hijacked by the corporate gulag and their political handlers operating under the transparently sordid fig leaf of "the international community." Dag Hammerskold's criminal conspiracy with the CIA in the ex-Belgian Congo, leading to Lumumba's politically motivated liquidation, were however premonitory of the frenzied tidal waves of US backed state terrorism.

Hopes born of decolonization and the Third World's bloodiest of revolutionary struggles sparked sanguine political perspectives and institutions that were nonetheless largely countered and smashed universally by the naked violence of systematized state terrorism. Socialism's gains worldwide also appeared irreversible. These were false dawns. A misreading, or better still an abysmal ignorance of the demonic drives of international capital proved lethal to its adversaries.

Moreover, it was an enfeebled and self-deluding theoretical Marxist schema, mainly of Moscow provenance, that also failed to plumb the

deeper undercurrents of the self-destructive processes ripping through the Soviet Union which ultimately would contribute to its disintegration, demise and descent into the periphery's purgatory.

Certainly, this was not an ensemble of internal changes related exclusively to the Soviet Union's stagnation and political ossification that had become so glaring with the end of postwar reconstruction. No less primordial as a causative factor in its breakdown was the decisively, concerted and effective hammer blows of imperialism against the Soviet Union and most resurgent Third World countries embarking — or attempting to embark — on alternative development paths.

The convulsive transition from socialism to capitalism were decades away. What I categorized as the Transnational Corporate Gulag (TCG) had not yet strutted on to the world's stage with such gusto evinced in the multi-billion dollar leverage conglomerate buyouts from the mid-sixties on. Such cynically morbid nostrums as structural adjustment, and deregulation with their permanent genocidal overhangs had not yet surfaced as part of what would become the respectable but mendacious claptrap of the TCG's ideological restructurers.

It was the age of delusion for the many who surmised that the Welfare State and its imagined halo had become transmogrified into irreversibly sacrosanct gains of the working and middle classes. Similar magnitudes of delusion assaulted those noble spirits, reared in the anti-fascist social battles of the 1930s, who deluded themselves that a parallel achievement - the rise of the public sector — would fling open the portals of paradise to mitigate class exploitation and social injustice; that its enlargement and democratic attributes after 1944 would ensure their institutional fixity in a post fascist resurrected universe. It was part of the Keynesian mythology of a re-born democratized capitalism; one destined to be shredded in quick order by the TCGs and their political demolitionists .

For certain mythologists the short years of "prosperity" from the early fifties were branded "the golden age". By the benchmark of the thirties it was. Its hoopla must not, however, be the object of nostalgic enchantment now that its fictitious wonders have yielded to the scourges of a sputtering world economy. These are no longer susceptible to feats of official acrobatic mendacity, corporate media dissimulation and doublespeak. What ought not to obscured was that the cyclical upswing was

ephemeral. It was not the harbinger of "the affluent society" as its soothsayers anticipated. What it did do, however, was that it fathered illusions about the sustainability of that evanescent capitalist wonderland of the fifties and sixties.

Unquestionably, the "golden age" showered modestly its droplets of prosperity on the labour aristocracy; but it did not alter the fundamental class relations that are the defining characteristics of capitalism as the locomotive of exploitation, or eliminate the irreconcilable contradictions between labour and capital that is its central nervous system. To be sure, "the golden age" speeded up these antagonisms by preparing the soil for the TCGs' unimpeded aggrandizements.

The "golden age" was not only class-selective as all cyclical upturns are, but also geographically confined to the hegemonic capitalist economies, the TCGs power centres. In Korea and Japan, the boom was triggered by the US instigated Vietnam slaughter, accomplished at the cost of wiping out millions of Asian lives. Wars and the trillion dollar preparations of war engineered capitalism's "golden age", and not the fake medicine of the Keynesian therapy.

With the Soviet Union's ignominious crumbling and its domino-effect on other centrally planned economies it appeared to certain demoralized critics, (even those once wedded to the ideals of socialism and planning as its quintessential component) that a New Order had been ushered in. The imperial celebration of 'the demise of Marxism and the end of socialism' had kindled such anaemic imbecilities as "the end of history" and "the everlasting glory of the magic of the market place" to use Ronald Reagan's fundamentalist preachment.

The counterpart to structural adjustment, as one of the selected weapons of mass Third World carnage, marched to the drumbeats of ideological restructuring. Academic cults as post-modernism imparted to that concoction, the New International Economic Order, some of its hackneyed rationalizations. With its exaltation of the cult of irrationality, in much the same mode as Nazi race doctrine had earlier done for Nazi Big Capital, propagation of post-modernism and other such doctrinal fads and trivia must be seen as neither fortuitous nor innocuous. Indeed, post modernism and laisser fairyland orthodoxy became the warp and woof of the gulag's marketable intellectual fabric.

"Less than 75 years after it officially began," sententiously declaims Robert Heilbroner, "the contest between capitalism and socialism is over: capitalism has won".[656] A peremptory testimony enshrining the shallow smugness of economic liberalism; a mantra that would endlessly reverberate within the TCGs boardrooms, the Kremlin Walls, the State Department and Big Capital's domesticated media.

The proposition, however, has other doctrinal roots, discernible even in certain critical expositors of the system's pathological mis-workings. "After the events of the past year," comment Paul Sweezy and Harry Magdoff, "there can be no doubt that the visible future belongs to capitalism. Such a perspective is relatively new. For most of this century, it was far from clear that capitalism would survive into the third millennium".[657]

To what species of capitalism do these presumptions address themselves? Reflections on the logic and movement of capital in its current and pre-gulagite phases substantiate the extent to which capitalism is the annihilator, and not the enhancer, save in highly twisted ways, of the planet's productive assets. Current depressionary pillaging of the capitalist world economy, bracketed to the shattering waste and decimation of these human and material resources in two Great Wars, and the interwar years, are tragically confirmatory.

Obviously, capitalism's beneficiaries and its victims are not identical. To mourn a vanished golden age giving way to hard times begs the question: hard times for whom? A perfunctory glance of *The Fortune Global 500* suggests that there is no collective crisis of the gulag.[658] In one and the same corporate entity is united the particular and the general. In all respects one member of the global 500 is like all the others. Nonetheless particular members go bankrupt, disappear, are eaten up.

Here one perceives the particular within the general and the general within the particular. Dialectically, its particular members are at once identical but also different. It is The interplay of the particular and the general and their interpenetrative divergences and convergences that

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656. Robert Heilbroner, *The New Yorker*, 23 January 1989.

657. *Monthly Review*, March 1991.

658. *The Fortune Global 500*, 7 August 1995.

constitute the essence of transnational gulagism. Their CEOs and corporate apparatchiks have not shared the agonizing fate of deprivation and mass joblessness that devastates tens of millions of men and women in their prime, so redolent of the thirties and, indeed, in scope and volume exceeding it.

This wasteland and human desolation is largely the gulag's handiwork. If this is not a blatant violation of human rights then what is? The World Bank's findings are appalling; it is compelled to acknowledge "that around 800m people go hungry daily and their number is projected to soar."[659] If current trends persists, 1.3bn people are expected to survive on less than a dollar a day by 2000, 200 million more than in 1990.[660] Where are the grounds for capitalist trumpeting stemming from these grisly numbers of detonating misery? Over vast stretches of the poor world, with Mexico providing a grim reminder, the spectacle is one of uninterrupted bursts of inflation, class polarization indebtedness, currency devaluations and depression.

The gap between rich and poor is horrendously widening. In 1870, on the eve of the world's first Great Depression, the Paris Commune, and the Franco Prussian war average per capita income was eleven times that of the poorest; by 1960, it soared to thirty eight; by 1994, it leapt once again to fifty eight. What is true of the general is no less true of the particular as the rich/poor gap has turned into a yawning chasm in all countries over the past two decades — not least in China that once proudly exemplified an egalitarian social order. In this blackest cockpit of proliferating decay what is the message, the promise and fulfilment, of Heilbroner's asserted "victory of capitalism"?

James Wolfensohn, former chairman of one of Wall Street's leading investment banking houses, now World Bank president, bemoans Africa's predicament: "In the only region of the world where poverty is projected to increase by the end of the decade, I saw its very sad, very human face."[661] We can dispense with this nauseating sentimentality.

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659. World Bank, *Strategy for Reducing Poverty and Hunger*, Washington, D.C.1995.

660. World Development Report, *Workers in an Integrating World*, Washington, D.C.1995.

661. "A New Partnership for Development", *Statement to the UN Economic and Social Council*, Geneva, 6 July 1995.

Indeed, the plight of a stricken, hapless Africa is one of the monstrous tragedies of our times. Such maudlin discourse from the Bank's top apparatchik is the acme of vulgarity and criminally hypocritical.

Does not such sharpened impoverishment stem in good measure from the Bank's policies of structural adjustment and its other political and military corollaries? Mahatma Gandhi grasped the quintessence of British imperialism when he incisively exclaimed: "You cannot sever a man's limbs and then taunt him with being unable to wiggle his fingers and his toes." What were the roles played by irrevocably corrupt oligarchies activated by the Bank and the corporate phalanx?

Take Nigeria. After a quarter of a century of oil exports outstripping $220bn that country — one of Africa's largest and most fabulously endowed — is flat broke, saddled with tens of billions of debt. Its per capita income at $310 is among the world's lowest, lower in real terms than before the gushing of the oil boom. Where have these missing billions gone? There is no mystery. They were plundered by a murderous domestic oligarchy hooked up to the TCGs mega petroleum, banking and other members of the gulagite coterie.

Are we to understand that these multi-billion dollar chunks of skullduggery unlimited, one of the biggest rapes perpetrated in a Third World country, should be construed as capitalism's consummate accomplishment? Are these isolated episodes? Mobutu's $6bn personal fortune sprinkled over the world's financial centres, which like Nigeria provides the spectacle of another mass rape of that country's resources and peoples; it is a fixture of the same connecting web that links capitalism's mega-professional political killers with the TCGs expansionist drives.

The same fate that struck down the peoples of Nigeria have done no less to the masses in Zaire, both unrivalled in their spiralling descent into poverty amidst prodigious and actual wealth. The presence and posturing of "Marshal" Mobutu or any of his odious clones, bankrolled by imperialism, are mandatory for the pursuit of profit. A state of celebration that the Foreign Office and the Pentagon have always benignly acknowledged but never publicly applauded. Eruptions of corporate skullduggery in Africa, and certainly within every crevice of international capitalism is boldly exhibited in South Africa.

Here the tightly knit South African corporate structure was built and flourished on quasi-slave labour for generations. Its profit rates are the

world's most alluring, nor should it be astounding that the El Dorado personal fortunes of these family dynasties — congregating for the most part in their golden ghettos in North Johannesburg — are among the world's biggest.

The largest six conglomerates depict South African corporate muscle in its most tenacious, naked, savage and concentrated configuration. In the words of the African National Congress, that now seeks democratically to redress these crimes halting this all-engulfing power complex of inequality and ethnic cleansing, the Big Six "continue to exercise an undiminished stranglehold on every vital fibre of the nation's life".

Reversal of such concentration leading to the dismantling of this ethnic power complex (Anglo-Saxon, Afrikaners and Jewish) will not be effortless as the Big Six's tentacles and multi-million dollar racketeering protrudes into all political orifices. It remains to be seen if the ANC will opt for the choice of formal parliamentary palaverings (as the European Union, the US Chamber of Commerce and the State Department suggest they do) and thereby conveniently ignore the lessons and fate of Dr. Salvador Allende, or briskly push on to the real business of expropriation and thus to authentic democracy.

In its war against African Liberation Movements it was one of the fiercest warriors of the Apartheid regime and its natural ally, the CIA. A point incessantly stressed by Joe Slovo, one of the leaders of the armed resistance struggle. One measure only of their phenomenal power is that the Big Six appropriated 85% of the capitalization of the Johannesburg Stock Exchange. Its supreme gulagite, the world's biggest mining corporation, Anglo-American, has gouged out 40% of that capitalization.

Can this be construed as the triumph of people's capitalism? Is this the model that merits replication in the Third World and elsewhere? Is such undiminished continuity of unbridled corporate gulagism compatible with a South Africa that has made the formal transition from slavery to freedom? It goes without saying that the financial and marketing clout of the Big Six extend well beyond South Africa's frontiers and thus figure preeminently in the TCGs leading echelons of power.

What the devotees of deregulation deliberately bypass is that trading and financial deals in the world marketplace are inseparable from the "normal" operations of corporate capitalism. This was true of capitalism at all stages of its development. It is generalized practice today because of

the telecommunications revolution that can fling billions of dollars around the world with the flip of a speculator's computer key. Hence the distinction between clean and dirty money is indistinguishable in world capital flows.

According to the US Drug Enforcement Administration, net profits of the drug business is about $450-500bn yearly. That business is of course only one such "illicit" enterprise. What this means is that the boundary where so-called "dirty" money flows begin and "clean" money flows end is non-existent, save in the law books. Criminalization of global finance capital goes well beyond such spurious distinctions as "clean" and "dirty".

Enforced poverty is related to "integration" pursued by the World Bank, IMF and WTO working in tandem with transnational power structures. Leaders of the trio with very rare exceptions are incubated in the TCGs. Their existence and their dealings are incompatible with the continued quest for national sovereignty. The judgement of Julius Nyerere, and several African intellectuals and Third World policy makers, that the trio have exercised more malevolent power than imperialism ever did, or could have done, is no longer debatable. One of the swiftest, and best planned genocides in history, notes Michel Chossudovsky, was that of the World Bank team in Rwanda that were directly responsible for the political and social repercussions of shock therapy nailed to a country on the brink of civil war.[662]

This was also true of the World Bank's stratagems in Somalia, this time spurred on by the geo-political designs of the Pentagon and the State Department. Aggregate United Nations GDP data, despite its shortfalls, nonetheless provide a broad sweep of the cataclysmic regional and economic inequalities. Blatant is that galloping inequality in distribution of economic power remains one of the ugliest traits of the world economy over the last quarter of a century. It indicates the trajectory of this demonic force. Capitalist triumphalism does not triumph in these numbers.

At end 1994, 27 advanced capitalist economies with 23% of the world's land area, 14% of its population grabbed 72% of its exports. At the spectrum's other end, around 162 poor countries (including China) occupy 58% of the planet's area and 77% of its population, but had less than one

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662. 'IMF World Bank Policies and the Rwandan Holocaust,' *Third World Resurgence*, No.52, 1994.

fifth of world GDP and a quarter of its exports. Between these two major regional groupings stand the crushed centrally planned economies—quixotically tagged economies in transition — with about 18% of the land area, 8% of its population, a parsimonious 4% of world GDP and less than 3% of world exports.

These are useful indicators but they fail to convey the dynamics of gulagite power, which is one of the essential pursuits of *Economic Liberalism*. True, the banana republics of Central America are exporters of the commodity bananas, but this accurate statement of geographical location does not reveal the breadth of the gulag's power embodied in merely three transnational corporations. These are masked behind formal commodity trade export data.

Indeed, three mega conglomerates with the United Fruit Company (Chiquita) leading the pack dominate the output, pricing, marketing and world wide distribution of bananas; that is from plantations to supermarket shelf. Hence mechanisms of effective transnational power is masked in these official export customs data. The banana gulag which consists of three transnationals ensures that the banana republics remain banana republics with all the racist connotations associated with that designation, as well as totally subordinate to their requirements, and the geo-strategic demands of US imperialism.

Mainstream economics deliberately mystifies the class nature of power but this is not so of the TCG's rulers. The masters of the UFC and their brethren are realists — they have to be — and hence there is no need for fatuous cover ups when it comes to elucidating the mechanics of real power and its manipulation. The repressive implications are obvious, best perceived in a genial understatement, by a former United Fruit chairman, 14 years after the mass butchery and eradication of democracy in Guatemala.

> "There remains the question of the political impact of a large corporation in a country such as Honduras. It would be foolish to pretend that the United Fruit Company is not without political influence in Honduras." And much else besides.[663]

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663. United Fruit Company, *Annual Report*, Boston, 1968. UNCTAD, *The Marketing and Distribution of Bananas*, Geneva, 1976.Thomas McCann, *An American Company: The Tragedy of the United Fruit Company*, New York, 1976.

Although the burgeoning growth of S E Asia's economies marks a significant phase in capitalist development since the 1960s, the same corporate logic applicable to Central American bananas is relevant to the Tigers and their emulators. Economies as Thailand and Malaysia, for example, have become export-oriented economies in the service of Big Capital. Their industrial exports of electronic artifacts are emanations of transnational marketing policies, inasmuch as their low costs wage economies are deployed by TCGs as industrial launching pads for conquest of world markets through fatter market shares.

This is strikingly manifest in Japan's TCGs output and marketing strategies: Matsushita, Panasonic, Sony, etc. Their sustained growth and that of the Tigers are predicated on their permanent access to markets of advanced capitalist economies. These are not enduring export prospects as they rest on wobbly foundations. Burgeoning export growth as the Tigers have experienced, or rather their foreign corporate paymasters, will ultimately come up against world capitalist overproduction and resentment by importers to their sustained market penetration as well as the sustained balance of payments surpluses they are triggering. Moreover, their future growth curves will also be adversely impacted by raging inter-imperialist economic wars, with Japan and the USA providing a microcosm of yet even grimmer economic wars to come.

What we have seen over the last quarter of a century, is the rising inequality in the world's distribution of economic power, an era that coincides with the flowering of transnational expansionism. Besides regional inequalities, one also perceives marked disparities within country groupings. The tempo of TCG power is conditioned by two inter-related political changes: liquidation of the public sector, matched by breakneck global integration: mass and unending privatization, deregulation of world trade, untrammelled speculative capital flows, spurred by information technology.

On the threshold of the 1980s, about a third of the world's labour force originated in the centrally planned economies. If downtrends continue fewer than 10% of workers will be employed there by the end of this millennium. These projections are a public relations gimmick intended to serve the posturing of ideological restructuring. Such projections are porous because they fail to analyze the total quantitative and qualitative job context within the bankrupt employment policies of capitalism. What is

gripping as we move towards the end of our current century is capitalism's crass inability to brake — there is not even the slightest talk anymore of reversal — the tumultuous currents of joblessness, marginalization and permanent impoverishment.

The world work force continues its upward climb. The ILOs findings indicate that the differentials between the world's labour force by income and regional groups are widening. Percentage share of the high income group is expected to dive from 21% to 11%; that of the low income group to spurt from 52% to 61%. Where is the success story of capitalism engraved in these numbers?

TABLE 25. *Growth of World Labour Force*
(1965 - 2025)

	MILLIONS OF WORKERS			ANNUAL COMPOUND GROWTH RATES
INCOME GROUPS	1965	1995	2025	(1965 - 2025)
World	1,329	2,476	3,656	1.7
	(100)[1]	(100)[1]	(100)[1]	
High	272	382	395	0.7
	(21)	(15)	(11)	
Middle	363	658	1.020	1.7
	(27)	(27)	(28)	
Low	694	1,436	2,241	2.0
	(52)	(58)	(61)	

Source: International Labour Office.

1. Figures in brackets are percentages.

More than half the planet's labour force (1995) live in poor countries where per capita income is below $700. These are official numbers that deliberately circumvent the quasi-slave labour of tens of millions of children that are deliberately unrecorded as in Bangladesh and Pakistan — votaries of the Free World. The hosannas sung to the miracles of

transnational capital on the eve of the crumbling of the Berlin Wall have an even more mockingly hollow ring now that Japan, the once touted whizzkid of international capitalism is engulfed in uncontrollable crime waves; an economy that's on the skids with a banking system bedevilled with corruption and unpayable loans outpacing $800bn; freighted down with a moribund political system. It is this tragic conjuncture of pain, fear and endemic insecurity that continues to devour the nation's self-confidence.

For once, The World Bank has struck the right chord: "Economic growth has not solved the problem of world poverty, deprivation and unemployment. Indeed the numbers of the poor could rise still further as the world labour force grows from 2.5bn today to a projected 3.7bn in thirty years' times." The numbers subsisting and grovelling on less than one dollar a day number more than a billion.

As in the era of the Great Depression, the jobless ranks are swelling inexorably: between 35-40 million in the rich capitalist countries alone. Worldwide, the 'official' numbers presented by the ILO are 130-140 million. As estimates they are plausible but also spurious in that they relegate one vital human factor: in desperation, millions have relinquished hope of finding any kind of job. Transnational capitalism has never been the spawning ground of jobs. Indeed it is precisely against the world of labour that the TCGs have bared their fangs and left their killer bitemarks.

Work force growth and TCGs labour demolition strategies, "to remain internationally competitive" to use their pedestrian refurbished rationalization, will augment joblessness with further soaring inequalities as their concomitant. Dominant production and distribution systems within global capitalism cannot even begin to tackle these cataclysmic events as we stressed in *Economic Liberalism*. At least they do not even have the need of keeping up the appearances of so doing.

Comprehensive economic and social planning to face up to humanity's basic demands is one of the grandest innovations of all times; and so it must remain one of the prime imperatives of the onrushing century. For several complex reasons, not all apparent, it has been eclipsed as a humanist mechanism of development. As we move into the next millennium it no doubt will be resuscitated as an institutional dynamic. What specific class, political and ideological mix it will assume, nationally and internationally, is, however, beyond the realm of forecast at this juncture.

Internationally, transnational capital employs a trifling 34m, as against a 45-50m yearly growth of the world's labour force. The mega corporation has been metamorphosed into the grand liquidator of both democracy and private property, notably the small and medium enterprises, traditional job spawners. It suffices to compare numbers employed in *The Fortune 500* in the fifties with those in the mid-nineties. In the fifties, Shell employed over 200,000 now shrivelled to around 100,000. Need it be added that during that time-span, its sales and revenues have boomed exponentially?

Shell, however, as a rapid comparison indicates, pursues identical labour strategies of its fellow TCGs. Job liquidation in the advanced capitalist countries will not be compensated at a global level through relocation of production to the poorer countries. This stems in part from technology's labour shaving impact. Complementing this shift in technology, and relocation, is the interminable corporate onslaughts against the trade union movement epitomized in Rupert Murdoch's newspaper *The Times*..

The media tycoon's prescriptions for an obsequiously domesticated trade union movement is not the brainwave of an abstract theorist but rather that of the prototypical capitalist who combines theory and money-maximising practice. In much the same mode as the peddling of "free trade" baloney, the Murdoch doctrine is a replay of the incantations of the 19th century capitalist. His theory of labour liquidation is enshrined within his own media empire.

What he considers to be the blueprints of tomorrow is in fact already with us. "The successful unions of tomorrow", he exults "will be unideological except in understanding that their members' prosperity is linked to that of their employers . . . *Worker organizations have a role in updating management*".[664] Translation: workers must accept their subordinate status with no back talk. Thus unions should be confined to personal worker grievances. Or as Henry Ford said: "Union talk is monkey talk and its a lingo I don't know or want to know."

Murdoch's vision must not be construed as a mere carbon copy of German Big Capital in the era of the Third Reich. It is already one that is

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664. Quoted in Dan Gallin, "Inside the New World Order", *New Politics*, Vol.V. No.1, Summer 1994.

part of the TCGs operational labour meat grinder. Its goal is the scaffolding of a labour movement in general, and a trade union movement in particular, that is permanently impotent, adrift and divided. What is of exclusive and paramount concern here is the advancement of corporate expectations.

On that front as the City and Wall Street sees it Murdoch's TCGs media empire and its anti-labour offensive have conformed to their highest specifications. His political disciples are many. Murdoch's views on trade unionism is fulsomely embraced by labour party leader Tony Blair, "a man with whom I can do business" as Murdoch pontificates. Indeed he can. For as one *Financial Times* analyst observed: there is no such thing as a labour party in the UK but rather a second Tory party. From the stentorian voice of Big Capital in The City the point needs no elaboration.[665]

One of the celebratory pieties of Big Capital's ideological engineers has been their obtuse insistence on the market's role as dynamic activator and signalman of corporate decision making, or corporate governance, to use their deferential platitude. Indubitably, such an institution as the world market is a grim functional reality, but what the trite and sedulous campaign of ideological obfuscation ignores is that markets and market relations are not, and indeed can never be, neutral between buyers and sellers, consumers and producers, landlords and peasants, workers and capitalists.

The unbending goal of market fetishism has always been to mask the exploitative stranglehold of class power. Via the hustlers of post modernism in academia and its other hired intellectual compradores it has largely succeeded in achieving this objective.

Markets are power complexes dominated by finance capital. They are massive configurations of sectoral muscle operating though a web of intricately corrupt modes of shareholding and interlocking directorates. A staggeringly pervasive trait of this totalitarian Frankenstein is the whip-

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665. *The Financial Times* and *The Economist* are the most militant protagonists of British media Big Capital. A media that has gone through the wringer of concentration. The squeezing is not yet over. They are owned by The Pearson Group and the family dynasty that owns most of its stock.

lash of compassionless capital concentration whose purpose is the ceaseless stalking of fatter market share.

In the mid eighties when asked if McDonald's would reach a point of saturation its owner crisply struck back: "Saturation is for sponges" McDonald's and Coca Cola are collusive transnationals. Exclusively, only Coca Cola and its other beverage lines are sold at McDonald's.[676]

Listen to the grand vow of Robert Goizueta, Coca Cola's chief executive officer. "By the year 2000, we will have Coca Cola available within an arm's reach of desire of the 6bn people who will be housed on this planet." This imperial ambition is no facile utterance. If realized — and to be sure the Atlanta giant is well on course — such an astounding marketing feat will more than double aggregate non-US sales volume with all its tangible political upshots. What it has meant for the peoples of the world has been spelt by Filipino social scientists"

> "The beverage giants like Coca-Cola and Pepsi have virtually wiped out from the market all traces of indigenous beverages like *kalamansi* (local lime juice), *buko* (coconut water), and *gulaman* (seaweed gelatin with sugared water or coconut milk). Such local traditional drinks now only manage to surface in their stylized version during special holidays or in tourist restaurants as part of the native exotica that every tourist must sample. On the other hand, Coke and Pepsi have become standard fare for all occasions, from the most affluent communities to the humblest barrios of the country."[677]

The conglomerate transnationals and their outgrowths, as we stressed more than a decade ago, have demolished the once valid sectoral demarcational boundaries of the primary, secondary and tertiary sectors that had long remained the classificatory breakthrough of Colin Clark.

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666. See Frederic F.Clairmont and John H.Cavanagh, *Merchants of Drink: Transnational Control of World Beverages*, Third World Network, Penang, 1988.

667. Third World Studies Centre, University of the Philippines, *The Socio-Economic Impact of TNCs in Developing Countries: Case Studies in the Food and Beverage Industry with specific reference to Coca Cola and McDonalds.*

Belatedly, but felicitously, *The Fortune Global 500* now rediscovers the significance of this far-reaching transformational change pinpointed by UNCTAD.[668]

Mutations within the media and communications industry, to take but one sector, indicates the cancer-like proliferation of totalitarian concentration in a handful of mega corporations. Since the eighties this momentum has speeded up. The Walt Disney Corporation's gobbling up of Capital Cities/ABC network for $19bn — the second biggest bite in corporate history — has at one fell swoop conjured up the world's largest "entertainment" contraption.

At that very moment, the Westinghouse Electric Corporation, an industrial giant, pounced on CBS, one of the world's biggest radio and television networks, for $6 billion. The consummation of one more multi-billion dollar deal that made the Tisch dynasty, owners of CBS, one billion dollars richer overnight. What such media aggrandizement once again dramatize is that media Big Capital is not concerned with enlightenment and objective news evaluations, but the deployment of news gathering and its transmission as a transactional commodity for its enhancement of power in the interests of its socially unaccountable owners and shareholders.

Auto producers are in the insurance business, software producers are hawking services. Telephone companies are grabbing markets that were once the exclusive hunting grounds of broadcasting corporations. This is a self-reinforcing phalanx within the service sector. General Electric Corporation, once upon a time an exclusively industrial corporation (already owner of the biggest US communications network, NBC), pulls in more than 40% of its revenues from services, mainly financial services.

The devastating cultural reverberations of these mergers and acquisitions leap the frontiers of the USA. The "gobbling up business," as an ABC executive lugubriously dubs it is politically and ideologically explosive as it is occurring in a sector that has become (apart from the Voice of America and its other propagandist government clones) major weapons of psychological brain scrubbing as Bush's CNN televised Gulf War spotlighted.

The US media leviathan remains par excellence the crudest, certainly the most tenaciously violent exponent of State terrorism as well as — this

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668. Frederic Clairmont and John Cavanagh, "Transnational Corporations and Services: The Final Frontier." *Unctad Review*, No.5. 1984.

is its dual role — an effective and expanding armoury of US cultural imperialism. The frantic drive to become bigger and bigger without end is glimpsed in CNN's headlong lurch to eat up its competitors at all costs. In a flamboyant statement that exemplifies the bellicosity of the communications gulag, CNN's owner Ted Turner, one of the world's richest multi-billionaire dollar tycoons, with a reported net worth of $31bn, laments:

> "I have to compete with Rupert Murdoch who has his own studio, who has his own broadcasting network, and his own cable network. I'm having to fight with one hand tied behind my back. It's like fighting a war without an air force. If the people you're fighting with have an air force, you've got to have one too. All my life I've been on the outside. I'm sick of it. I want to be able to stand up at the first class table. I don't want people pushing me around any more."

Is this to be construed as the paragon of entrepreneurial virtue? We can sympathize with Turner's incessant howling and whining and his compelling need to crank up his propaganda machine. Analyzed in a wider perspective they are nothing more than the pangs and whines of the gulag's insatiable gluttony. His whining must not be construed however as the confessions of a crack-brained megalomaniac although they may sound like it. They are the normal patterns of gulagite conduct. The upshot of this corporate rape is that the media TCGs have the leverage to exert inordinate monopolistic control of a community's source of news and entertainment. This applies worldwide. How can this arrogant and repellent reality of a wholly destructive media juggernaut be reconciled to the claims of representative democracy and the basic tenets of pluralism?

By picturesquely branding *The Fortune Global 500* as 'the planet-prowling behemoths' its compilers have rightly assimilated them to beasts of prey which is apt; but that will not do inasmuch as the paramount 500-1000 transnationals must be bracketed to a burgeoning breed of predators that can trenchantly, certainly more realistically, be personified as the transnational corporate gulag.

The *US News and World Report*,[669] itself a ruling class mouthpiece, captured its universal spirit of terrorism, greed, and instability when it deplored, "that mergers and acquisitions, like a rampaging elephant, can

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669. *The US News and World Report*, 22 July 1985.

maraud once tranquil communities, trample innocent workers, ruin profitable companies and vaporize well-laid plans." Not "can" but has done. The only thing that has changed since that indictment in 1981 has been the sheer scale of such towering irresistible corporate depredations.

Given the existence of an economic crisis where it may be asked is its locus? Economic crises and its lethal grip on the lives of millions is not perceived in the aggregate performance of the global gulag. Productivity has risen, revenues and sales have rocketed, but most astounding of all is that the incomes of their chief executive officers (CEOs) have soared to stratospheric heights, whereas the number of wage workers are shrinking and real wages keep plunging.

This is the unilateral declaration of class war that Big Capital is waging. There are no limits attached to such obsessive quests of money making. Also, the gyrations of finance capital are now dominated by around-the-clock, big-time speculation. A case study[670] of billionaire speculator George Soros illuminates the ravages of the firestorm generated by deregulation that have swept into limbo the relics of an earlier regulated era.

Availability of unlimited liquid money racing through unregulated financial markets, inconceivable two decades ago (apart from government securities markets) enabled the likes of a George Soros to take billion dollar speculative positions with a simple telephone call. At one stroke this speculative King Kong, as he was baptized by certain Wall Street brokers, shoved the UK out of the European Exchange Rate Mechanism with a stratagem that was the essence of simplicity.

Within a couple of hours Soros decided that he would zoom in for a swift kill on what he deemed to be the UK's overpriced pound sterling. When this mightiest of speculators swung into action the UK's currency was doomed. Soros and his swift financial moves are of great pedagogic value because they display the extent to which the TCGs are capable of pulverizing monetary policy, one of the essential ingredients of national sovereignty.

His Soros Quantum Fund (SQF) had no problem in borrowing immediately a monumental five billion pounds against its assets. He changed

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670. Robert Slater, George Soros: *The Life, Times, and Trading Secrets of the World's Greatest Investor*, New York, 1995.

his borrowed money into Deutsche marks at a rate of 2.79 to the pound. Once the pound dropped, Soros sold the Deutsche marks back for less. He then repaid the loans and pocketed the difference of $958 million.

It is superfluous to rant and rail against Soros. He and his tribe have played according to the rules of the deregulated casino New International Economic Order. There is nothing venal in Soros and his game. The name of the endgame is money making on a grand scale with no holes barred. After all this is the key element in the scenario of the promised terrestrial paradise, ostensibly inherent in deregulation and its miracles. In this perspective Soros is no criminal but rather the heroic incarnation of a New Order and its dispensations. He is touted by some as the world's grandest philanthropist ever. Nor is this surprising in view of his humanist outpourings with his lamentations on the decline of western "moral values".

As owner of the Quantum Fund, Soros pockets 20% of the Fund's earnings. Based on the findings of the magazine *Financial World*, Soros, in 1993, was richer than 42 members of the United Nations. In mid-1995, President Chirac of France damned speculation as equivalent to AIDS in financial markets. The sentiment is well understood, but it was nothing more than a morsel of self-promotional badinage, from which he rapidly back pedalled.

As a bourgeois politico, whose family and himself have been allied and integrated with Big Capital in France throughout their lives, he deliberately failed to ask the most pertinent of questions: who created the conditions under which the Soros breed exists and flourishes? And Baring's billion dollar scam? And the daily mass swindles within the Futures and Derivative markets worldwide? This game is far from over. In fact it will never be over because irrepressible embezzlement is the hallmark of the system's normal workings.

The Soros file and others of their vintage must be projected against the backdrop of the hideously enduring economic depression that humanity is traversing. However, the TCGs glowing balance sheets do not reveal agonies of crises but rather the ecstasies of profits exponential. Annual revenues of the Global 500 is $10 trillion or around twice the size of US GDP. Whereas the Global 500 (1994) revenues rose by 9%, its profits soared by a colossal 62%.

Notwithstanding such mammoth profits the 500 in just one year (1994) rubbed out 262,000 jobs. Revenues of the 500 have reached new heights not mainly because of increasing demand for their products but due to the rampant drive to mergers and acquisitions. Such is the arithmetic of gulag power and herein lies its basic contradiction: it has conjured up its own nemesis

To a very large measure, we shall be unable to understand the convulsions, degradation, decadence and cultural regression of our capitalist order without reference to the TCG as its centrepiece, welded to its political appendages. This is, in sum, the crux of imperialism. What will be the fate of these massive unaccountable aggregations of power and their political ventriloquist dummies in the coming century? Will they be able to sustain their structures of unrelenting growth, domination and exploitation that has been such a sordid trait of their being over the last three decades? Obviously, there can be no such thing as infinite growth in a finite environment. A law that applies no less so to the mega corporation.

None can say when the upper limit of concentration will be reached, or if it will be reached. Despite its frantic pace to gobble up all and sundry the gulag has not yet scaled the upper limit of that historical process, but it is fast approaching that limit. Well even before the last bricks of mergers and acquisitions will have been stuck into the edifice of corporate capitalism it will inevitably be cracked by the battering ram of social and political pressures that it has bred. There is nothing immutable in capitalism's evolution. The emergence of the transnational gulag within capitalism's womb must be studied in the historical specificity and institutional trajectory of capital's law of movement.

There is no model, there is no precedent whatsoever which twenty first century humanity can firmly grasp and say: this is the Holy Grail. The Soviet model has served its purpose both positively and negatively. As a model it can not be resuscitated. Its demise marks the end of a revolutionary epoch that cannot be revived. Much remains to be learnt from it. The public relations model that it projected of "really existing socialism" was never wedded to reality.

When I asked in Moscow a senior party official, at the end of Brezhnev's rule, who had coined that asinine slogan the cynical operator replied that no one knew, no one will ever know, and no one cared to know. A retort that was a gauge of the depth to which the degenerative system had

plunged into the abyss. There is nonetheless another side to the coin. As Petras and Vieux remind us, the October Revolution and the other great social revolutions of the twentieth century that followed in its wake, and drew its inspiration from that fountainhead, were not aberrations or accidents of history.[671]

It is therefore preposterous to write off the mass of class organizations and the embrace by hundreds of millions of socialist ideals and values as simply a misunderstanding of the unfolding of the historical process. As Edward Hallett Carr puts it: "the study of causes is the essence of the study of history."[672]

On that score the prophesy of Thomas Carlyle, historian of the French Revolution, will continue to reverberate in the new millennium:

> "Hunger and nakedness and nightmare oppression lying heavy on twenty five million hearts: this, not the wounded vanities or contradicted philosophies of philosophical advocates, rich shopkeepers, rural noblesse, was the prime mover in the French Revolution; as the like will be in all such revolutions, in all countries"

Severing the Soviet connection has been and still is an excruciating ordeal for tens of millions. Its demise must also be analyzed as a source of redemption, a liberating force from the dogmas of a no less lethal species than those of the transnational gulag. With the Soviet Union now dumped into the cauldron of the poor countries, it would appear that there is no adversary that formally threatens the existence of corporate capitalism. Capitalism has survived the tumults of the twentieth century. And yet it is not entirely the master of the playing fields. Erupting social and nationalist explosions in rapid succession are gnawing at the system's vitals.

Capitalism as private appropriator of humanity's economic surplus is speeding into an impasse. Millions on millions of working men and women driven into superfluity by the system are the Achilles heel of corporate

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671. James Petras and John Vieux, "Decline of Revolutionary Politics" *Journal of Contemporary Asia*, No.24. Vol.l, 1994.This will remain one of the most profoundest essays relating to revolutionary politics in the nineties.

672. *What is History*, London, 196l.

gulagism. What the system demands is an ever larger number of consumers to absorb an ever larger number of goods and services that the system produces. But here is the rub: the creators of wealth are being shovelled into joblessness, hence their vastly diminished propensity to consume. It is precisely these Himalayan numbers of chronically insecure people from all social strata, endowed with invigorated stimuli of social and political consciousness which will throw down the gauntlet to the system.

Certain well intentioned liberals have sought evasion by installing mechanisms in their minds to tell them that the horrors are not horrible; that the system's terrors can be circumvented or rather mitigated by non governmental organizations, local citizens movements, religious groups and other so-called dubious alternative institutions. Ostensibly these would preserve local traditions, cultural life and human dignity.

Desirable as they are these activist grouplets are marginal. Their quest is to work within the system. Capitalism as a system of class power cannot be dented by such febrile uncoordinated movements. These can never be a substitute for mass struggle embodied in mass political organizations with explicitly defined targets and blueprints. History is about numbers and about very big numbers.

Capitalism's recurrent crises exploding in shorter and shorter intervals of time and with increasing intensity has given rise to pessimism and foreboding on the part of many. There are those who have also sought evasion by appealing to the muse of history in that "history will solve the problem". Economic Liberalism is dead but the corporate gulag survives and at all points of the compass it will be effectively challenged.

The profound analytic insight of Marx with its great message of hope is of supreme contemporary relevance as humanity faces up to the exigencies of breaking the inherited mould, of what always was and has now become even more so, of an oppressive and anachronistic social system.

> " History does nothing, it possesses no immense wealth, fights no battles. It is rather man, real living man who does everything, who possesses and fights."[673]

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673. Marx-Engels: *Gesamtausgabe*, Vol.1. Quoted in E.H. Carr, *op.cit.*

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